HM Treasury

Whole of Government Accounts

year ended 31 March 2021

HC 1588

July 2023

HM Treasury

Whole of Government Accounts

year ended 31 March 2021

Presented to the House of Commons pursuant to section 11 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed on 20 July 2023

HC 1588 July 2023

This publication is available at: www.gov.uk/official-documents.

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

ISBN 978-1-5286-4285-9

E-Number: E02934573 07/23

Printed on paper containing 40% recycled fibre content minimum

Printed in the UK by HH Associates Ltd. on behalf of the Controller of His Majesty's Stationery Office

Contents

Chapter 1
Performance Report

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

Overview of the Whole of Government Accounts for 2020-21, including the basis on which the accounts are prepared and what is included in them

Fiscal risk management framework, including the role of HM Treasury in monitoring and controlling expenditure and liabilities

Significant matters of interest, including developments since the end of the 2019-20 reporting period

Analysis of the WGA Financial Statements for 2020-21, including trend data and additional context for key balances

Other matters reported on, showing progress against central government objectives

Overview

1.1 The Whole of Government Accounts (WGA) provides an integrated view of the government's financial position and performance. It consolidates the UK public sector in line with International Financial Reporting Standards. WGA is a globally unique publication which puts the UK at the forefront of government financial reporting.

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

1.3 The headlines for WGA 2020-21 show:

	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
Income	(731.5)	(813.3)	(795.6)	(764.5)	(720.8)
Expenditure	1,063.0	918.7	851.8	808.8	760.7
Total assets	2,206.7	2,138.5	2,098.8	2,013.8	1,903.0
Total liabilities	(5,533.0)	(4,972.7)	(4,554.6)	(4,579.4)	(4,323.7)

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

	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
Commitments	194.8	205.8	183.7	168.7	159.4
Contingent Liabilities	66.1	68.0	80.1	83.7	84.0

1.5 This publication presents the financial statements for the 2020-21 financial year as well as information on more recent events where we feel this would be useful to the reader. These include the economic and fiscal context section below (from paragraph 1.30) and information on Covid-19 spending since March 2020 (from paragraph 1.68). It also sets out the effect of a lower rate of data submission for 2020-21 meaning that 137 bodies that were consolidated into WGA 2019-20 are not included this year (see paragraph 1.6 onwards).

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

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

Why do we prepare WGA?

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

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

WGA and National Accounts

Day to day management of the public finances uses the National Accounts measures.

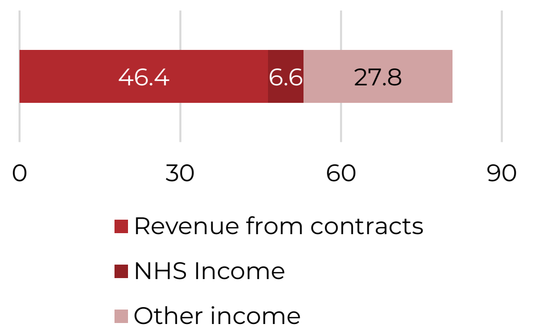
These measures are less comprehensive than WGA, but are far faster to prepare, and follow international standards that allow comparisons between countries. Using WGA and the National Accounts together allows for robust monitoring of the fiscal position and periodic assessments of the overall state of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

Income

Most public sector expenditure is financed through tax income.

Income type	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
Income tax	191.9	194.2	194.0	186.0	173.8
National Insurance	125.8	126.6	120.4	118.4	108.6
VAT	122.1	137.2	135.6	128.6	124.4
Other central government tax	161.1	169.8	168.9	166.4	162.3
Local government tax	49.8	68.9	66.8	62.2	59.0
Other revenue	80.8	116.6	109.9	102.9	92.7
Total income	**731.5**	**813.3**	**795.6**	**764.5**	**720.8**

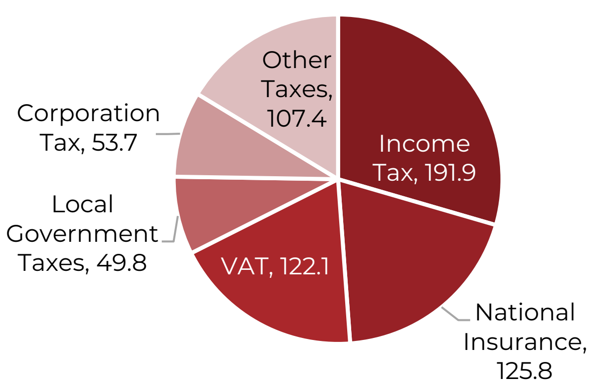
Other revenue 2020-21 - £bn



WGA income

In addition to tax income, government generates income from a wide variety of sources. Revenue from contracts includes £19.1 billion from sales of goods and services. Of the EU income total of £2.3 billion, a significant element (£0.9 billion) is spent by Defra on payments under the Common Agricultural Policy and other EU initiatives. NHS income is made up of a variety of sources, including income from private patients (£0.4 billion)

Taxation Revenue 2020-21 - £bn



Tax income

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

Expenditure

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

Expenditure type	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
Social security	258.4	240.0	230.3	225.9	223.7
Staff costs	253.5	235.3	255.7	215.8	191.1
Purchases of goods and services	238.7	223.6	206.5	207.4	194.8
Grants and subsidies	197.2	62.2	58.8	51.2	53.6
Debt interest	21.2	31.8	31.6	36.8	31.8
Other	94.0	125.8	68.9	71.7	65.7
Total expenditure on public services	**1,063.0**	**918.7**	**851.8**	**808.8**	**760.7**

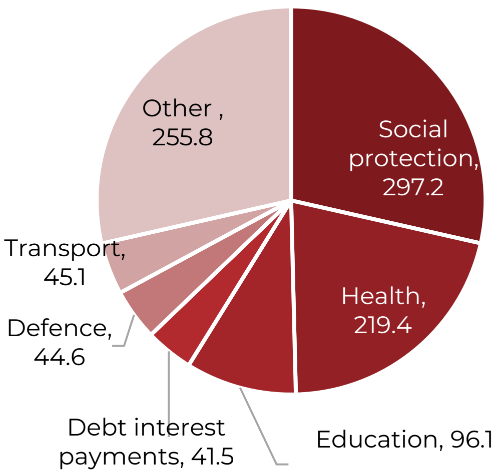
Social security benefits

Social security benefits make up 24% of government expenditure. A significant proportion (40% of total benefits) is made up of the State Pension, with 6% made up of Housing Benefit, 13% paid in disability and carers' benefits and 23% paid as working age benefits.

Staff costs

Staff costs also account for a large proportion of expenditure (24%). This includes salaries and wages of £171 billion and pension scheme costs of £82.5 billion. Permanent staff make up 95% of all staff costs.

Main areas of functional spending 2020-21 - £bn



Alternative views of expenditure

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

Drilling down into further analysis has been challenging but the Treasury also publishes Public Expenditure Statistical Analysis (PESA) and Country and Regional Analysis, which provides an alternative functional insight and regional breakdown of public spending. This chart reports the PESA functional analysis for 2020-21. This can be reconciled to WGA total spend (see expenditure section for more detail).

Assets

The most significant assets owned by the public sector are property, plant and equipment, other financial assets and other receivables.

Asset type	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
Property, plant and equipment	1,270.3	1,313.3	1,268	1,208.4	1,167.6
Other financial assets	605.7	516.2	514.9	507.6	458.9
Trade and other receivables	202.9	182.0	190.3	179.9	173.2
Other assets	127.8	127.0	125.6	117.9	103.3
Total assets	**2,206.7**	**2,138.5**	**2,098.8**	**2,013.8**	**1,903.0**

Property, plant and equipment

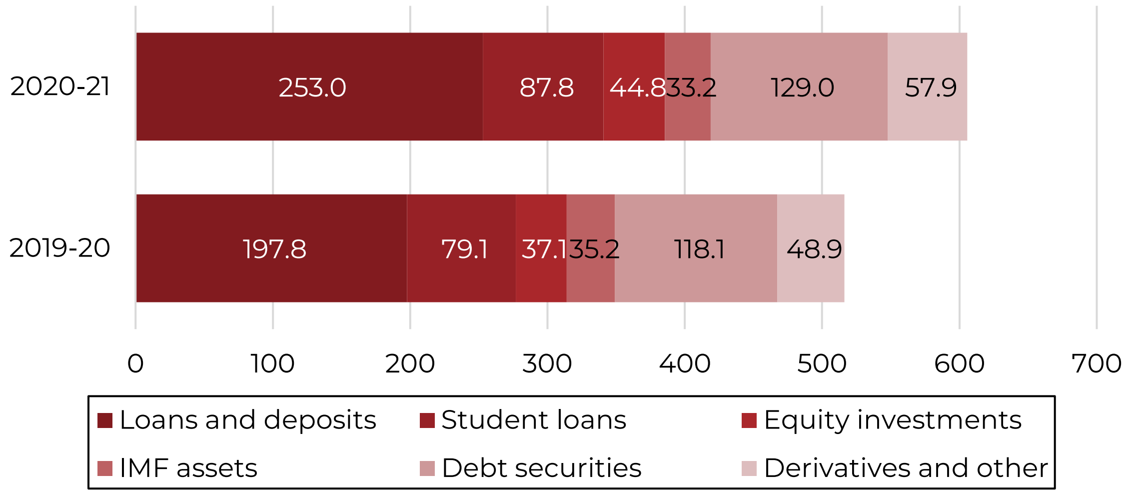
Property, plant and equipment (PPE) comprises 58% of assets in WGA. The largest components of PPE are land and buildings, and infrastructure assets – which includes the road and rail network.

Trade and other receivables

The most significant government receivable is taxation income due of £164.3 billion. This includes amounts of tax and duties where the taxable event has occurred but the return has not been received from the taxpayer by the year end.

Other financial assets

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



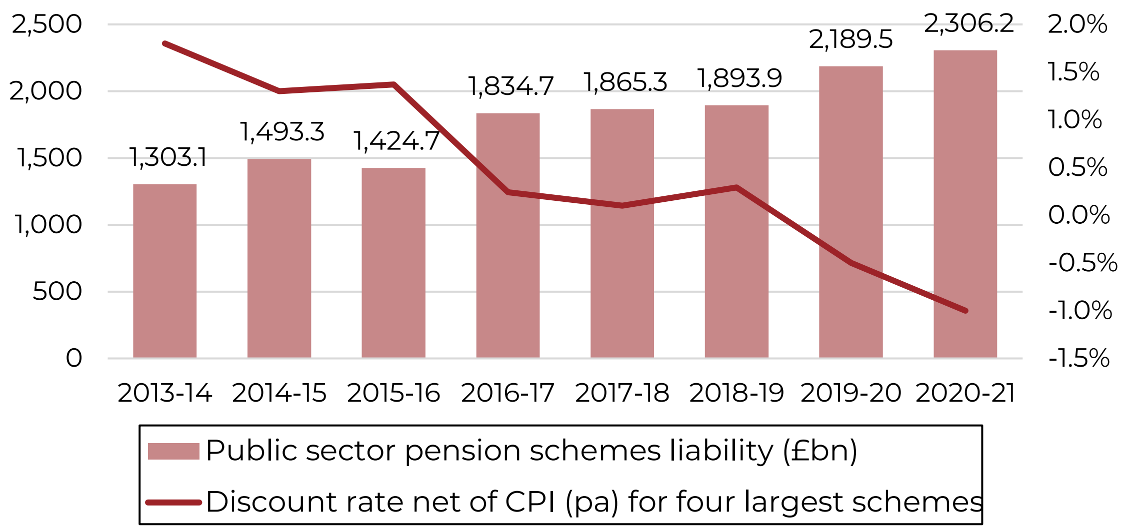
Liabilities

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

Liability type	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
Public sector pensions	2,306.2	2,189.5	1,893.9	1,865.3	1,834.7
Government borrowings	1,520.3	1,445.4	1,407.2	1,347.4	1,289.0
Other financial liabilities	1,118.8	761.9	750.2	752.8	692.2
Provisions	366.4	374.8	311.4	422.5	322.2
Trade and other payables	221.3	201.1	191.9	191.2	185.6
Total liabilities	**5,533.0**	**4,972.7**	**4,554.6**	**4,579.2**	**4,323.7**

Public sector pension liability

Public sector pensions are the largest liability within WGA at £2,306.2 billion. Pension valuations are impacted by changes in the discount rate used to calculate the present value and changes to actuarial assumptions such as on inflation and salary growth, life expectancy and workforce size.



Government borrowings

The primary form of government debt is gilts. Total gilts stand at £1,264.8 billion. Other components include Treasury Bills and NS&I products.

Provisions

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

Commitments and contingent liabilities

Types of liability in WGA

The WGA balance sheet shows £5.5 trillion of liabilities. In addition to these, there are commitments which are not recognised on the balance sheet.

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

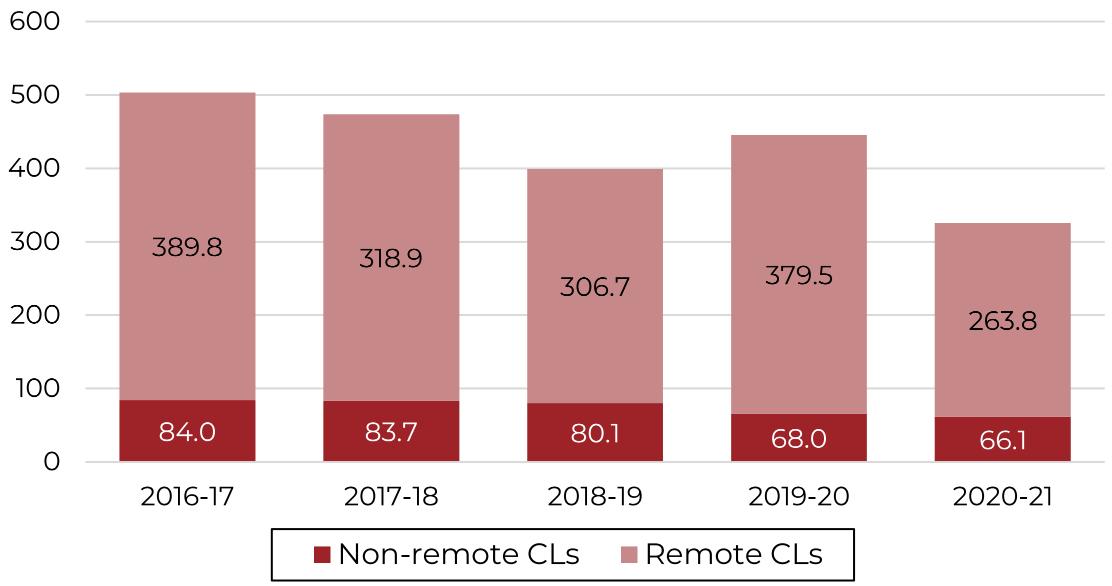
Commitments

Commitments captured in WGA total £194.8 billion. These include £53.4 billion in capital commitments, £28.7 billion in commitments under leases, £32.7 billion in PFI finance lease commitments and £80.0 billion in other financial commitments.

Contingent liabilities

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

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



Scope of WGA

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

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

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

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

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

What is not in WGA in 2020-21

The list of bodies consolidated into WGA is not identical every year. Component bodies are created, merged and dissolved, and classified into and out of the public sector. In some cases, bodies that are required to do not submit data for consolidation. 2019-20 saw a lack of data from 21 bodies which was more than in previous years. We saw this as a serious issue, but this was not significant to WGA as a whole.

The number of bodies not submitting consolidation data for 2020-21 was much higher than in 2019-20, as a further 137 bodies did not submit. There were a number of reasons for this, and ongoing audit issues in the English local government sector were a contributing factor as well as a reduction in submission rates from Scottish central government bodies.

Some areas of WGA 2020-21 are affected by this missing data more than others. An estimate of the effect on the Statement of Financial Position and Statement of Revenue and Expenditure is presented below from paragraph 1.6.

Data missing from WGA 2020-21

1.6 The list of bodies consolidated into WGA is not identical every year. In some cases, bodies do not submit data for consolidation as they are required to. Historically, the number of bodies which have failed to submit data for consolidation has been low and was not disproportionate to other changes to the list of bodies consolidated. 2019-20 saw a lack of data from 21 bodies, which was more than usual, but this was not material to WGA as a whole.

1.7 The number of bodies not submitting consolidation data for 2020-21 was much higher, as a further 137 bodies did not submit. This significant discrepancy between the number of bodies consolidated into WGA has meant that data included in the 2019-20 WGA is absent from WGA in 2020-21. Due to the absence of data, it is not possible to calculate the amount missing from 2020-21, but the 2019-20 submissions from those missing bodies can be used as a proxy. The table below shows the totals for WGA 2020-21 alongside data for 2019-20 from bodies which didn't submit in 2020-21.

	WGA 2020-21 (£bn)	Estimated missing data (£bn)	Percentage of total
Assets	2,206.7	108.0	4.9%
Liabilities	(5,533.0)	(182.3)	3.3%
Net liabilities	**(3,326.3)**	**(74.3)**	**2.2%**
Income	(731.5)	(29.2)	4.0%
Expenditure	1,135.9	55.3	4.9%
Net expenditure	**404.4**	**26.1**	**6.5%**

1.8 The table above demonstrates that despite being material, the missing data is a low proportion of the total in percentage terms. Therefore WGA continues to present a comprehensive picture of the UK public sector. A more granular analysis of the missing data across WGA's 2020-21 Statement of Revenue and Expenditure and Statement of Financial Position, showing which areas of the accounts are particularly affected, is presented below from paragraph 1.23.

Impact on consolidation process

1.9 In order to prepare WGA, component entities submit their accounts data to HMT. Under the Government Resources and Accounts Act 2000 HM Treasury may designate a body for inclusion in WGA, unless its activities relate entirely to Scotland. HM Treasury lays a Statutory Instrument which designates the bodies in England and Wales which are required to submit data for consolidation, and a similar process takes place for Northern Ireland. The Scottish Government makes separate administrative arrangements for bodies in Scotland to provide data in line with HM Treasury requirements.

1.10 Once data has been collected from components, a series of consolidation adjustments are then made to this data to accurately present the picture for the UK public sector as a whole. This involves adjustments such as removing transactions between bodies that are both in WGA (so that the total income and expenditure, for example, isn't double counted), together with removing any associated asset and liability held by those bodies. These adjustments are known as eliminations. The estimates for the key metrics presented in paragraph 1.7 show the position after these consolidation adjustments.

1.11 Where bodies consolidated into WGA in 2020-21 reported that they had transactions and balances with entities that did not submit returns for that year, these have been disclosed as related party transactions. See Note 31 for further details. These disclosures are likely to be underestimated as some entities will have omitted to report the relevant transactions and balances – either in error, or because the amounts involved are small and the entity considered them too trivial to report.

1.12 Due to the nature of funding flows within the UK public sector, the missing data will mean that some balances within WGA 2020-21 are shown at the correct amount but categorised differently to how they were in 2019-20. Grants from central government to local government bodies are a key example. All UK central government departments submitted consolidation data for 2020-21, but a significant number of English local government bodies did not. Ordinarily, the pre-eliminations data would show a grant expense in the department, with a matching amount of grant income reported by local government bodies and then expenditure (on e.g. schools or social care) as the grant is used for its intended purpose. Consolidation adjustments would then be made to remove the matching grant expenditure and income, so that WGA as a whole shows only the ultimate expenditure on services. For the bodies that didn't submit data in 2020-21 this chain is broken, and WGA will show only the grant expenditure distributed to those bodies by central government.

1.13 On the other hand, some areas of WGA are largely unaffected by the missing data. Items such as gold holdings, government borrowings and contingent liabilities are almost entirely held by large central government departments, all of whom submitted consolidation data, so in these areas the picture is largely complete.

Number of missing entities

1.14 A summary of the number of entities which submitted data for 2019-20 but not 2020-21 is as follows:

Sector	Number of bodies
UK central government	3
Scottish central government	17
Total central government	**20**

English local government	102
Scottish local government	8
Welsh local government	1
Total local government	**111**
Public corporations	**6**
Total	**137**

1.15 For further details of the bodies within each category see Annex 2, published alongside WGA on gov.uk.

Reasons for non-submission

1.16 Data submissions for WGA 2020-21 opened on 27 April 2022. The original data submission deadlines set by HM Treasury were:

- 31 July 2022: Cycle 1 return of unaudited data
- 31 August 2022: Cycle 2 return of data based on audited accounts (with this data submission from larger bodies signed off by their auditors).

This timetable did not apply to local government bodies in Devolved Administrations, which are covered by separate arrangements.

1.17 A significant number of WGA components did not meet these Cycle 1 and Cycle 2 deadlines. In an effort to ensure as much data as possible was collected, HM Treasury extended the Cycle 2 deadline to 30 September and again to 30 November 2022. During this period HM Treasury engaged with component bodies to encourage submission, communicate deadline extensions and assist with use of the OSCAR II data collection software.

1.18 Data submissions for WGA 2020-21 were finally closed on 16 December 2022 to allow consolidation work to begin, and so that the data collection software could be updated for WGA 2021-22 and tested before submissions for that year opened in January 2023.

1.19 While the largest individual bodies which didn't submit were two Scottish Pension Schemes, the majority of bodies which didn't submit WGA data were in English local government. Ongoing issues and audit delays in the local government sector were a contributing factor to non-submission in this area. These issues, and the actions being taken by the Department for Levelling Up, Housing and Communities to address them, are discussed in more detail from paragraph 1.20 below.

1.20 At 30 November 2022, the National Audit Office reported[1] that the number of local government audit opinions that had not been issued for previous years were:

- 2020-21: 161 audits
- 2019-20: 45 audits
- 2018-19: 10 audits
- 2017-18: 3 audits
- 2016-17: 1 audit
- 2015-16: 1 audit

At 30 November 2022, a total of 632 local government audit opinions were overdue.

1.21 An audit opinion for 2020-21 being outstanding would not prevent the entity from submitting draft WGA data for that year. However, if an audit from 2019-20 or an earlier year remained outstanding, that may have prevented preparation of draft accounts for the subsequent year or years. A number of draft local government accounts had not been published ahead of the 2020-21 data submission deadlines.

1.22 The largest bodies which didn't submit WGA data were the Scottish NHS Pension Scheme and Scottish Teachers Pension Scheme, both within the central government sector. There was a combination of reasons for non-submission including resourcing and a structural reorganisation. HM Treasury have met with these bodies to emphasise the importance of WGA and there is a firm commitment to submit for WGA 2021-22 and future years. Due to these pension schemes not being consolidated into WGA 2020-21, the public sector pension liability disclosures (note 24) are particularly affected by the missing data issue.

Estimate of data missing from WGA 2020-21

1.23 The tables below show the Statement of Revenue and Expenditure and Statement of Financial Position for 2020-21, together with an estimate of the impact of missing data on each line of these statements.

1.24 In the absence of data for 2020-21, data submitted by the missing entities for WGA 2019-20 has been used as a proxy for the impact they would have had on 2020-21.

[1] Progress update: Timeliness of local auditor reporting on local government in England (nao.org.uk)

Statement of Revenue and Expenditure

	Note	WGA 2020-21 £bn	Estimate of missing data £bn
Taxation revenue	4	(650.7)	(11.7)
Other revenue	5	(80.8)	(17.5)
Total public services revenue		**(731.5)**	**(29.2)**
Social security benefits	6	258.4	6.3
Staff costs	7	253.5	19.0
Purchase of goods and services	8	238.7	19.6
Grants and subsidies	9	197.2	2.0
Depreciation and impairment	10	61.9	3.2
Interest costs on government borrowing	11	21.2	-
Increase/(decrease) in provisions	22	32.1	0.2
Total expenditure on public services		**1,063.0**	**50.3**
Net expenditure on public services		**331.5**	**21.1**
Financing costs of long-term liabilities, including discounting	11	55.7	4.8
Revaluation of financial assets and liabilities		17.2	0.2
Net (income)/expenditure for the year		**404.4**	**26.1**

Statement of Financial Position

	Note	WGA 2020-21 £bn	Estimate of missing data £bn
Non-current assets			
Property, plant and equipment	12	1,270.3	81.6
Investment properties	13	16.5	7.6
Intangible assets	14	41.0	0.3
Trade and other receivables	15	20.6	2.5
Other financial assets	16	340.8	2.4

		1,689.2	**94.4**
Current assets			
Inventories	17	15.3	0.1
Trade and other receivables	15	182.3	4.3
Other financial assets	16	264.9	5.2
Cash and cash equivalents	18	39.6	3.4
Gold holdings	33	12.3	-
Assets held for sale		3.1	0.6
		517.5	**13.6**
Total assets		**2,206.7**	**108.0**
Current liabilities			
Trade and other payables	19	(169.3)	(8.4)
Government borrowings	20	(274.0)	-
Other financial liabilities	21	(943.3)	(2.0)
Provisions	22	(28.4)	-
		(1,415.0)	**(10.4)**
Non-current liabilities			
Trade and other payables	19	(52.0)	(6.1)
Government borrowings	20	(1,246.3)	-
Other financial liabilities	21	(175.5)	(6.3)
Provisions	22	(338.0)	(1.1)
Net public sector pension liability	24	(2,306.2)	(158.4)
Total non-current liabilities		**(4,118.0)**	**(171.9)**
Total liabilities		**(5,533.0)**	**(182.3)**
Net liabilities		**(3,326.3)**	**(74.3)**
Financed by taxpayers' equity:			
General reserve		(3,932.3)	(94.7)
Revaluation reserve		601.8	20.2
Other reserves		4.2	0.2
Total liabilities to be funded by future revenues		**(3,326.3)**	**(74.3)**

1.25 The estimated impact figures above are taken from data submitted by component entities in 2019-20, adjusted for WGA consolidation adjustments made at an individual entity level. There are some other consolidation adjustments made at a higher (sector) level which are not reflected in an individual entity's figures and cannot be attributed to individual entities. As a result, the estimates presented are likely to be overstated as they do not reflect these sector level adjustments. Conversely, the general trend seen for bodies which submitted in both years was for many figures in the accounts to increase, so using 2019-20 figures as a proxy is likely to understate the level of missing data.

1.26 The figures shown above as estimates of the missing data will not agree exactly to the boundary adjustment figures shown in the notes to the financial statements or discussed in the narrative to those notes. The estimates shown above summarise the data submitted in 2019-20 for the 137 entities which submitted data for that year but not for 2020-21. The boundary adjustment figures in the notes show that missing data, but also include the effects of bodies being created, merged and dissolved, and classified into and out of the public sector.

1.27 Analysis of the movement between years in the narrative of the notes to the accounts is complicated by the artificial reduction due to this missing data. The narrative to the notes which are materially affected draw out the impact of the missing data and also of other trends within the data, particularly where these two movements counteract each other in the headline figures.

WGA 2021-22 and future years

1.28 HM Treasury's Director of Public Spending has regularly written to Finance Directors and Section 151 Officers to strongly encourage the importance of WGA and encourage them to submit data for 2021-22. During the data collection phase for WGA 2021-22, HM Treasury has pro-actively engaged with both component finance teams at the working level (in a similar way to previous years) but also with Finance Directors through the Finance Leadership Group. This comprises of senior finance representatives from each government department, heads of other government functions and connected professions, HM Treasury Spending Directors, representatives from the Devolved Governments and the Small and Medium Departments Network. HMT will also establish a local government working group and consider other ways to increase engagement with the sector.

1.29 HM Treasury hope that this proactive engagement at a senior level will encourage component bodies to prioritise timely submission of WGA data. However, the Accounting Officer of WGA is not ultimately responsible for local government components, which remain independent bodies. Where bodies are devolved and independent, HM Treasury has more limited influence. With other underlying factors such as the audit backlog in local government remaining, HM Treasury expect the lower level of submissions seen in WGA 2020-21 to also be an issue in 2021-22 and future years.

Fiscal risk management framework

Economic and fiscal context

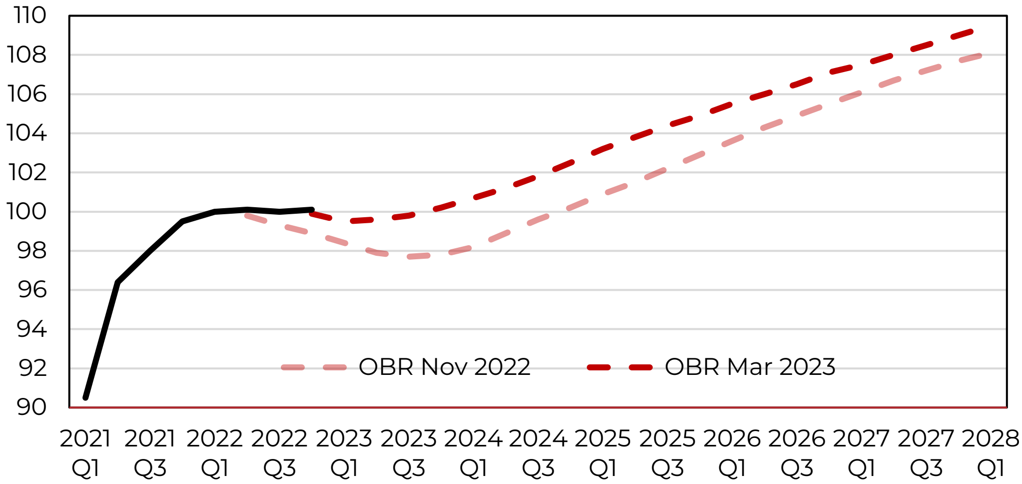
1.30 This section provides a forward-looking commentary on the Treasury's overall approach to managing the financial position and fiscal risk, including information on the economic and fiscal outlook as published by the Office for Budget Responsibility (OBR).

1.31 Following supply chain issues in the latter half of 2021 and recovery from the pandemic, the UK has been buffeted by global economic headwinds driving high inflation and weighing on growth. The government has taken decisive action to protect households and businesses, pledging to halve inflation this year, deliver sustainable growth, and to reduce debt in the medium term.

1.32 Since the OBR made its autumn forecast in November 2022, the economy and public finances have proved more resilient than expected. The OBR's March 2023 forecast shows that the economy is on track to avoid recession, with gross domestic product (GDP) higher than had been forecast in the Autumn. This is in line with more recent forecasts from the Bank of England, the IMF and the OECD, who have all revised up forecasted GDP growth for 2023 in their most recent forecasts. The OBR also forecast inflation to halve this year, and for debt to be falling in the medium term. The latest monthly GDP data and revisions have put output above its pre-pandemic level. However, the outlook for 2023 remains challenging, with households continuing to be affected by high inflation.

1.33 GDP grew by a modest 0.1% in the first quarter of 2023, but outperformed the OBRs expectations of a 0.4% fall. In March, the OBR revised up its GDP growth forecast in the near term, reflecting lower expectations for wholesale energy prices and Bank Rate, as well as contributions from policies announced at Spring Budget 2023. The OBR forecast the economy to contract by 0.2% on an annual basis over 2023, but revised up GDP by 1.2 percentage points in Spring compared to the OBR's November forecast, the largest upward revision the OBR has made to growth between forecasts outside the pandemic period. Beyond this year, GDP growth is expected to rise further to 1.8% and 2.5% in 2024 and 2025 respectively, and energy price falls take inflation below the 2% target. Due to the stronger than expected growth this year so far, other major forecasters (the IMF (May), OECD (June) and Bank of England (May) have all revised up their more recent forecasts for growth over 2023, forecasting growth of 0.4%, 0.3% and 0.4% respectively.

Figure 1.A GDP, outturn vs forecast, 2019 Q4=100



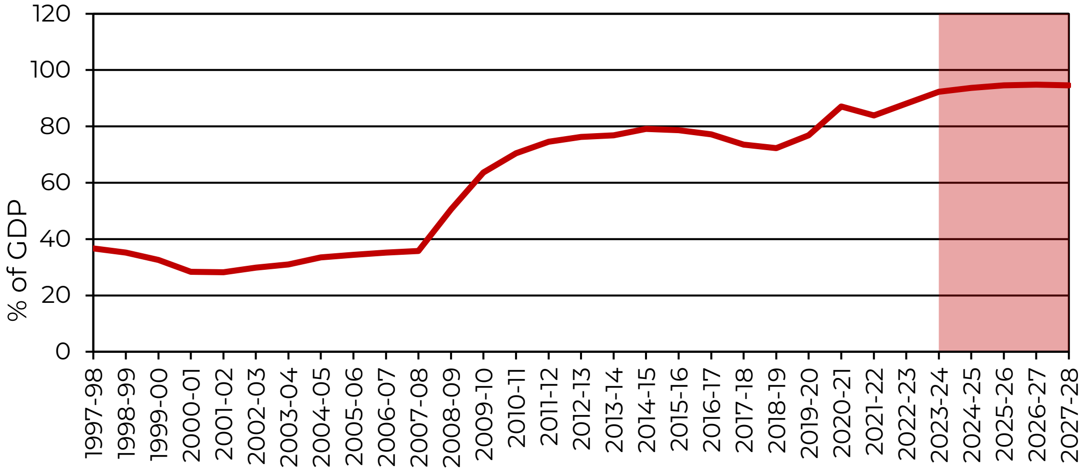
1.34 Over 2022, both Putin's illegal invasion of Ukraine and global supply chain pressures pushed CPI inflation to 40-year highs as energy prices rose to record levels. Domestic inflation has also risen over the last year, with price rises becoming more broad-based and peaking at 11.1% in October 2022. The OBR forecast inflation to fall from its quarterly peak of 10.7% in Q4 2022 to 2.9% in Q4 2023, a fall of over two-thirds. The OBR forecast inflation across 2023 to be 6.1%, 1.2 percentage points lower than in their November forecast, with inflation returning sustainably to target by 2027-28. Inflation has, however, been more persistent than expected this year so far, with the Bank of England forecasting in May that inflation would remain elevated at 5.1% in Q4 2023. The direct effect of policies at Spring Budget 2023 are expected to lower CPI inflation by 0.7 percentage points in 2023-24, whilst the IMF noted the "decisive and responsible steps," taken by the UK authorities in tackling inflation.

1.35 The UK economy emerged from the pandemic with unemployment very low by historic standards. However, the participation rate remains lower than before the pandemic. A smaller labour force is leading to elevated vacancies and likely contributing to higher inflation and weighing on growth. The OBR forecast the unemployment rate to rise modestly to a peak of 4.4%, 0.5 percentage points below their November forecast, with employment reaching 33.8 million by the end of the forecast, 850,000 higher than the pre-pandemic peak. The OBR judges that policies announced at Spring Budget 2023 will have a material impact on labour supply, directly increasing employment by 0.3% and raising GDP by 0.2% in 2027-28. This is the largest permanent increase in potential GDP the OBR has scored in their medium-term forecast as a result of government policy.

1.36 While the outlook for the public finances has improved relative to the OBR's November forecast, public debt remains high and risks to the fiscal outlook remain elevated. Public sector net debt (PSND) reached

99.2% of GDP in 2022-23[2], the highest level since the 1960s, and in the OBR's March 2023 forecast it is expected to peak at 103.1% of GDP in 2023-24. Debt has risen over recent decades as a result of external shocks such as the Global Financial Crisis, the COVID-19 pandemic and the energy crisis. These shocks have had material impacts on the economy and led to higher borrowing to fund additional support for households and businesses.

Figure 1.B Public sector net debt (excluding Bank of England)



Source: Office for National Statistics and Office for Budget Responsibility.

1.37 High inflation and rising interest rates have increased the cost of servicing government debt. Spending on debt interest was £106.8 billion in 2022-23. While this is £4.6 billion less than the OBR's March forecast, this remains double the level seen pre-pandemic.

1.38 While public sector net borrowing (PSNB) has fallen from the post war peak in 2020-21, borrowing in 2022-23 remained double the 2019-20 level. Borrowing remains elevated in the near term but will fall over the forecast. In 2022-23, the public sector borrowed £134.1 billion, £11.8 billion higher than 2021-22. In the OBR's March 2023 forecast, borrowing is expected to fall in every year of the forecast, reaching £49.3 billion by 2027-28.

1.39 Against this challenging fiscal context, maintaining sustainable public finances are necessary to provide the confidence and stability to underpin economic growth. The Chancellor announced the government's fiscal rules at Autumn Statement 2022. The rules are designed to ensure tax and spending policies are aligned with the government's commitment to get debt as a percentage of GDP falling

[2] Public sector finances, UK: May 2023, Office for National Statistics.

over the medium term, providing a stable foundation for sustainable growth. The Charter for Budget Responsibility, which sets out the government's fiscal rules, was approved by the House of Commons on 6 February 2023.

1.40 The government's fiscal objective is to reduce underlying debt (public sector net debt excluding the Bank of England) as a percentage of GDP by the fifth year of the rolling forecast period. Reducing debt will rebuild important buffers, providing space for the government to respond to future shocks, and reduce spending on debt interest that could otherwise be spent on public services. The debt rule is supplemented by a target for public sector net borrowing to be below 3% of GDP by the fifth year of the rolling forecast period; limiting borrowing will ensure debt reduction is delivered sustainably through tax and spending policy.

1.41 The OBR's March 2023 forecast confirms the government is on track to meet both its debt and borrowing fiscal rules. Underlying debt is projected to fall in the target year (2027-28 at Spring Budget 2023) and the borrowing rule is met two years early, with the deficit falling to 1.7% of GDP by 2027-28.

Fiscal sustainability and risks

1.42 The OBR's Fiscal Risks and Sustainability (FRS) report, published in July 2022, noted the risks of high debt alongside heightened global challenges. The FRS is the first of its kind, bringing together the previously separate risks and sustainability reports. Bringing these reports together enables the consideration of short- to medium-term fiscal risks alongside long-term trends that affect fiscal sustainability, providing a comprehensive examination of the public finances. The risks set out by the OBR in the FRS included:

- **Rising geopolitical tensions**: In March 2023, the government published a refresh of the Integrated Review to reflect the rapid pace of geopolitical change since publication of the Integrated Review in 2021 – including Russia's illegal invasion of Ukraine and the intensifying systemic challenge from China. Recognising the growing security threat and deteriorating geopolitical picture, the government announced at Spring Budget 2023 that it is providing an extra £5 billion for defence and national security priorities over the next two years and £2 billion each year for defence for the remainder of the forecast period. As set out in the Integrated Review Refresh, the government's aspiration over the longer term is to invest 2.5% of GDP in defence, as the fiscal and economic circumstances allow.

- **Higher energy prices**: Over 2022, both Putin's illegal invasion of Ukraine and global supply chain pressures pushed UK inflation, as measured by the Consumer Prices Index (CPI), to 40-year highs as energy prices rose to record levels. These exceptionally high energy prices have put pressure on households and businesses. The government has taken steps to make sure this burden is distributed fairly while not exacerbating inflationary pressures. The government is also investing in the future to ensure that the UK has sustainable and reliable energy provision and can deliver the transition to net zero, including the launch of Great British Nuclear at Spring Budget 2023.

- **Long-term fiscal pressures**: As the OBR highlights, an ageing population puts upward pressure on health, adult social care, and pension related spending. Actions announced at Spring Budget 2023 to address labour market inactivity and boost labour supply will deliver fiscal benefits and help to manage the fiscal pressures from an ageing population.

1.43 The government's agreement to respond to the FRS at a subsequent fiscal event establishes a feedback loop which demonstrates the government's commitment to thoroughly assessing and actively mitigating fiscal risks, and to fiscal transparency. The government's response to the report, published alongside Spring Budget 2023, highlights that reducing debt as a proportion of GDP is particularly important in the context of elevated risks, as this will rebuild important buffers, providing space for the government to support households and businesses through future shocks.[3]

Local government accountability and oversight

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

1.45 DLUHC is responsible for the core local government accountability framework for local authorities and for ensuring that it is effective as a national system within which local authorities take their own decisions. In addition to the core accountability system, other departments which oversee services run by local government publish statements that explain the grants they make to local authorities, and the legislation and regulations that relate to those services. These departments include the Department for Education, Department of

---

[3] Government Response to the 2022 Fiscal Risks and Sustainability Report, HM Treasury, March 2023.

Health & Social Care, Department for Transport and Department for Business and Trade. DLUHC's Accounting Officer is regularly provided with comprehensive assurance advice on how the local government accountability system is working and whether the system needs amending.

Oversight

1.46 DLUHC adopts a broad approach in discharging this responsibility. It looks carefully at the financial health of authorities, as well as at local authority governance and service delivery. DLUHC has worked closely with organisations including the Chartered Institute of Public Finance and Accountancy (CIPFA) to ensure their guidance on this matter is consistent with its approach.

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

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

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

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

1.50 DLUHC has policy responsibility for the Prudential Framework comprising the legislation and statutory guidance under which local authorities borrow and invest. Authorities must restrict borrowing to what is affordable and have regard to the statutory codes issued by CIPFA and the department. In response to changes in patterns in local authority behaviour where a minority of authorities are taking excessive risk through excessive debt, over-reliance on commercial income or the pursuit of novel and risky investments, the government has committed to strengthening the capital system. Details of the actions the government is taking are set out in the policy document Local authority capital finance framework: planned improvements (July 2021). Further to this, in May 2022, the government introduced The Levelling Up and Regeneration Bill, which includes new statutory powers for the government to directly tackle excessive risk within the local government capital system. This will safeguard the Framework and its principle of local decision making and accountability.

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

Local audit

1.52 A robust local audit system and transparent local authority financial reporting are key to delivering value for money for taxpayers, and for sustaining public confidence in our systems of local democracy. DLUHC is continuing to deliver on its response to the Redmond Review, in addition to a range of further measures, in order to enable a strong, resilient local audit system.

1.53 Audit delays remain an ongoing concern for the sector (just 12% of 2021/22 audits were complete by the 30 November 2022 deadline). To address the continued delays DLUHC has taken a number of further measures which include:

- acting as interim system leader since July 2021, and coordinating a wide range of cross-system actions, including the establishment of a Liaison Committee of key stakeholders which is chaired by the department and comprises members from: the FRC, NAO, HMT, Department of Health and Social Care (DHSC), Department for Environment, Food and Rural Affairs (DEFRA), Home Office, LGA, PSAA, CIPFA, and the Institute of Chartered Accountants in England and Wales (ICAEW);
- the provision of a second £15 million grant payment paid in March 2023 to continue to support councils with the costs of strengthening their financial reporting;
- laying a Statutory Instrument, which came into force July 2022, to amend the deadline for local authority to publish audited accounts to 30 September for 6 years, beginning with the 2022-23 accounts;
- laying a further Statutory Instrument, which came into force on 25 December 2022, to provide a temporary override of the requirements on valuing infrastructure, such as roads and coastal defences, that were contributing to delays;
- overseeing Public Sector Audit Appointments Ltd.'s (PSAA) successful procurement of audit contracts for 2023/24-2027/28 on behalf of over 450 local bodies; and

- committing to launch a procurement for a local audit qualification, which will provide experienced auditors with a new route into local audit and to become a Key Audit Partner.

1.54 DLUHC has agreed and published a Memorandum of Understanding with the FRC which sets out the fives roles and responsibilities the FRC will have as shadow system leader. The FRC continue recruitment into a dedicated local audit unit and will start in their shadow system leader role later this year. FRC is also leading on the development of a workforce strategy to address capacity concerns in the sector. DLUHC and the FRC will continue to monitor activity and engage all parts of the system to consider whether further action is necessary to address the timeliness of local audit.

1.55 HMT supports DLUHC in delivering these changes to the local authority audit system.

Local government in WGA

1.56 Delays to the audit of local authority accounts have meant fewer local authorities were able to submit their final WGA returns based on those accounts on a timely basis. WGA 2020-21 consolidates the results of 382 local authorities, of which 282 provided final returns and 100 submitted draft data. No returns were received from 128 local authorities. The impact of missing data from these local authorities and other bodies is considered in more detail from paragraph 1.6 of this performance report and in Note 1.3 to the accounts. However the overall level of data collected across the UK public sector remains high.

1.57 A further 11 local authorities were not required to submit returns and excluded from the consolidation on the basis that, as minor bodies, they are too small to have any material impact on WGA. See Note 2.1 for more details on the impact of excluding minor bodies. A full list of minor bodies is provided in Annex 3.

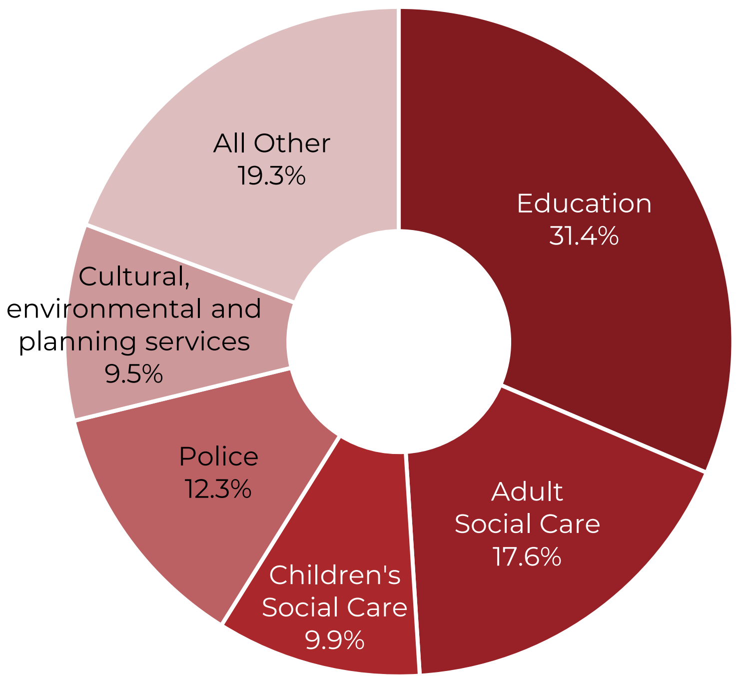
1.58 Delays to the audit of local authority accounts are expected to continue to impact WGA for 2021-22 and subsequent years.

Local government finances

1.59 Note 3 to WGA presents segmental reporting which shows the local government contribution to key figures in WGA. Further detail on expenditure by local authorities in England during 2020-21 and the sources of financing for that expenditure can be found in the DLUHC statistical release Local Authority Revenue Expenditure and Financing: 2020-21 Final Outturn, England[4], which shows Total Service Expenditure of £106.4 billion in 2020-21. This is prepared on a statistical basis and shown net of related income, so is not directly comparable with WGA.

[4] Local authority revenue expenditure and financing England: 2020 to 2021 final outturn (publishing.service.gov.uk)

Figure 1.C Proportion of budgeted service expenditure by service, England, 2020-21



Source: DLUHC

1.60 The category 'Other' includes Highways and Transport, Public Health, Fire and Rescue and Central services.

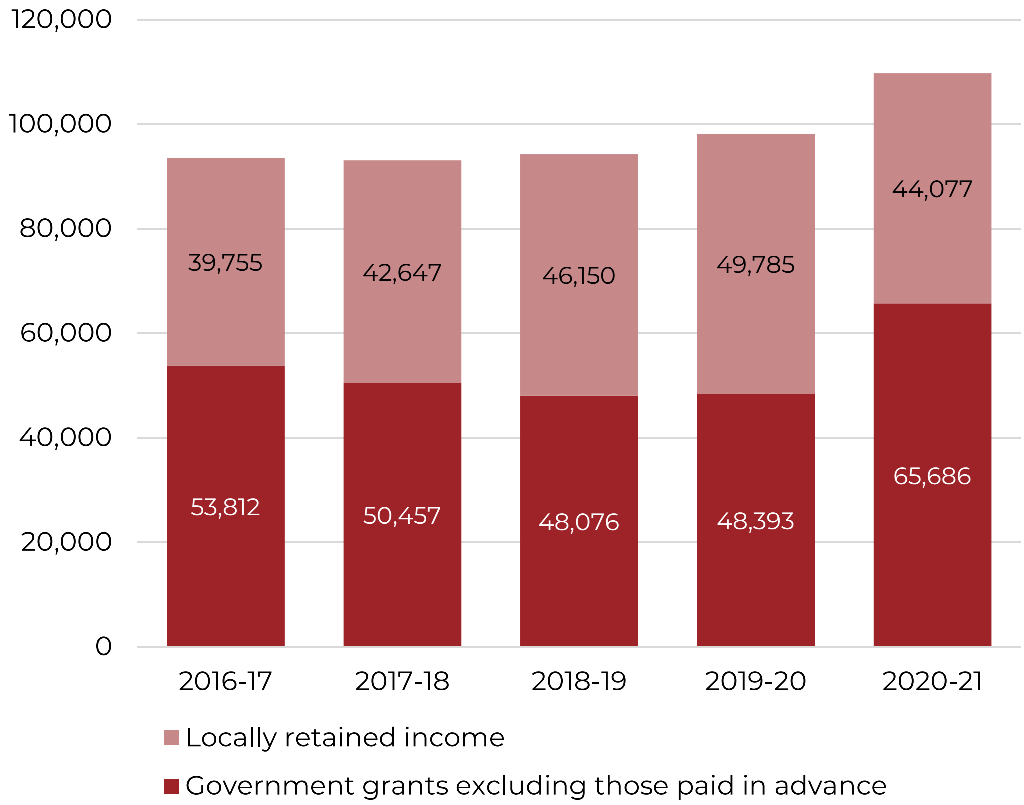
1.61 The Total Service Expenditure excluding Education Services shown in the statistical release was £72.9 billion in 2020-21. This was 14.6% higher than in 2019-20 when adjusted for inflation, or 17.6% higher in cash terms.

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

- Highways and transport, up by £4.1 billion (+108.7%) from 2019-20 to £7.8 billion in 2020-21;
- Social care, up by £2.4 billion (+9.0%) from 2019-20 to £29.2 billion in 2020-21; and
- Cultural, environmental and planning, up by £1.3 billion (+15.3%) from 2019-20 to £10.1 billion in 2020-21.

1.63 The broader measure of local authority Revenue Expenditure (other current expenditure in addition to service expenditure and non-current expenditure) calculated by DLUHC totalled £109.8 billion across all local authorities in England in 2020-21. This was 11.8% higher in cash terms than in 2019-20, and 8.9% higher than 2019-20 when adjusted for inflation. Chart 1.D shows how revenue expenditure was financed over the five years to 2020-21, with the share financed by central government grants reducing over this period:

Figure 1.D Financing of revenue expenditure, England, since 2016-17



Source: DLUHC

The role of WGA in financial reporting and management

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

Annual planning

OBR publications

The Office for Budget Responsibility (OBR) produces independent forecasts of the medium-term outlook for the economy and public finances twice a year. They also publish an annual Fiscal Risks and Sustainability Report. The government is required to respond to this report within a year of publication. This helps to ensure that fiscal risks and their management are properly considered and scrutinised.

Supply Estimates

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

In-year reporting

Internal management accounts

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

Public Sector Finances

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

Outturn reporting

Individual entity accounts

Individual entity's Accounting Officers (or equivalent) are responsible for the public funds spent within their entity. As part of this framework of accountability, each entity produces an annual report and accounts. These are prepared in line with International Financial Reporting Standards, as adapted for the public sector, and are then independently audited. Detailed information about the underlying activities and governance arrangements of the public sector can be obtained from the individual accounts consolidated into WGA.

Public Expenditure Statistical Analysis (PESA)

This provides a range of information about public spending for both outturn and plan years. It contains a range of presentations including departmental budgetary information and spending on services (a functional look at spending which is more stable over time). It also includes statistical information split by Country and Region that is originally published in the Country and Regional Statistical release. In addition to PESA, outturn updates are published on a quarterly basis to ensure updated public spending information is readily available.

Whole of Government Accounts

This is the only place that shows the financial performance and position of the entire public sector, and publishing WGA is another way the government fulfils its promise to make more data available to the public. There are over 10,000 organisations consolidated in WGA (including 9,000 academy schools). WGA data is then drawn on by future OBR reports and used by HM Treasury to monitor balance sheet risks.

The Balance Sheet Review

1.65 HM Treasury aims to embed balance sheet management in the public sector through a variety of means, such as institutions, incentives and reforms, strengthening capability, and spreading best practice. The Contingent Liabilities Approval Framework (CLAF) has been updated[5], which strengthens Treasury control of these important non-debt liabilities. New 'Guidance on the Management of Foreign Exchange (FX) Exposure' has been published[6], introducing mandatory requirements, a new approval framework and a new advisory body called the FX Advisory Board (FAB) to support UK government bodies making decisions on managing their FX risk and improve the management of FX exposure across government. As part of the government's commitment to the broadest view of fiscal sustainability, the Autumn 2022 update to the Charter for Budget Responsibility retains an aim to "strengthen over time a range of measures of the public sector balance sheet such as public sector net debt, public sector net financial liabilities and public sector net worth through effective management of assets, liabilities and risks".

1.66 HM Treasury continues its work to improve management of the public sector balance sheet, and the WGA continues to be a key part of that. Building on the insights provided by WGA and the Balance Sheet Review[7], HM Treasury is currently conducting a process of reviewing the government's key assets and liabilities ahead of the Balance Sheet Report, which the government will look to publish by the end of 2024. This will set out the government's objectives across the balance sheet, and how departments are delivering efficiencies through better management of their assets and liabilities.

---

5 Contingent liability approval framework - GOV.UK (www.gov.uk)

6 Guidance for the Management of Foreign Exchange Exposure - GOV.UK (www.gov.uk)

7 The Balance Sheet Review Report: Improving public sector balance sheet management - GOV.UK (www.gov.uk)

Significant matters of interest

Covid-19

1.67 The 2020-21 accounts in the WGA were affected by the Covid-19 pandemic, which impacted on economic activity, government revenues and government expenditure.

1.68 This section outlines the impact of Covid-19 up to March 2022 and also considers the impact on 2021-22 accounts for departments particularly affected.

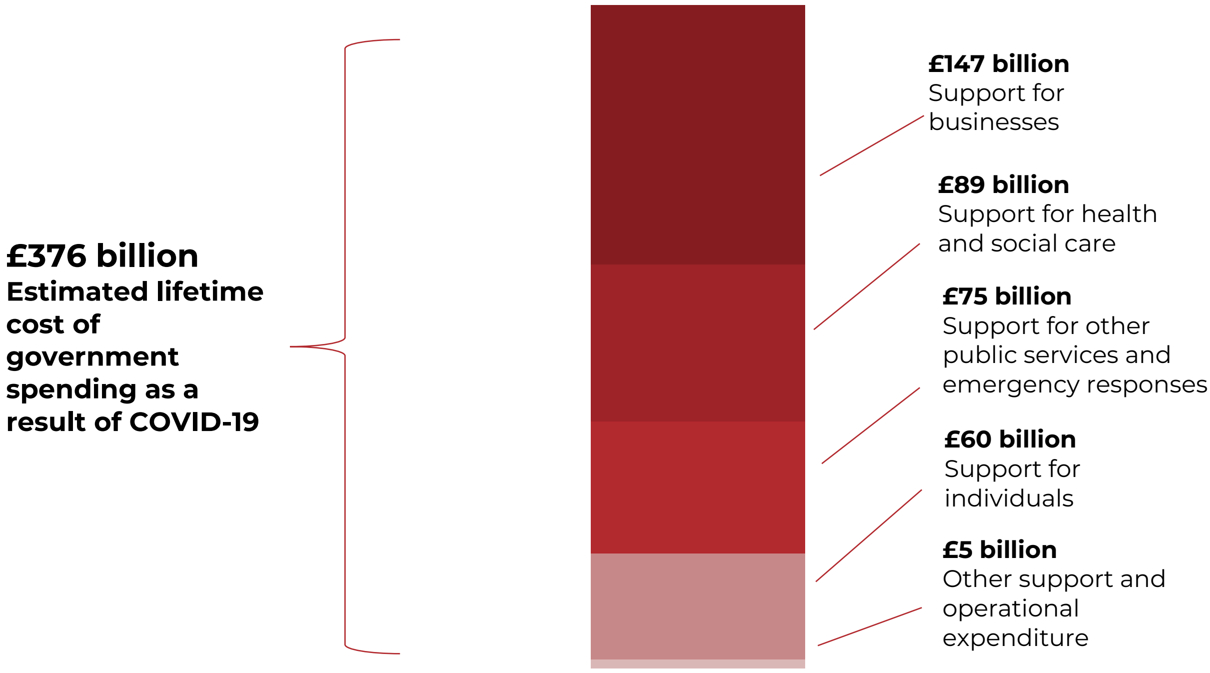
1.69 Throughout its response to Covid-19, the government sought to protect people's jobs and livelihoods while also supporting businesses and public services across the UK. Shortly after Covid-19 was declared a pandemic on 11 March 2020, the government began to make a series of announcements to support public services, workers, and businesses.

1.70 Approximately £2 billion was provided to support individuals and businesses through the winter months of 2021, as the novel Omicron variant of Covid-19 began rapidly spreading in November. Due to previous measures taken by the government – including the Coronavirus Job Retention Scheme and the Self Employment Income Support Scheme – the economy continued to recover over the course of 2021-22, allowing the schemes to close as of March 2022.

Covid-19 Cost Tracker

1.71 The NAO has produced a Covid-19 cost tracker which brings together data from across the UK government. It provides estimates of the costs of measures announced in response to the Covid-19 pandemic and allows the user to explore the full dataset in several different ways. The latest release of this cost tracker was published in June 2022 and includes measures announced since February 2020 and on or before March 2022.

1.72 The NAO's Covid-19 cost tracker shows a total estimated lifetime cost of £376 billion as at June 2022:



Approximately **£132 billion** of this total has been loaned or guaranteed by the Bank of England

Approximately **£376 billion** of this total has been spent by June 2022

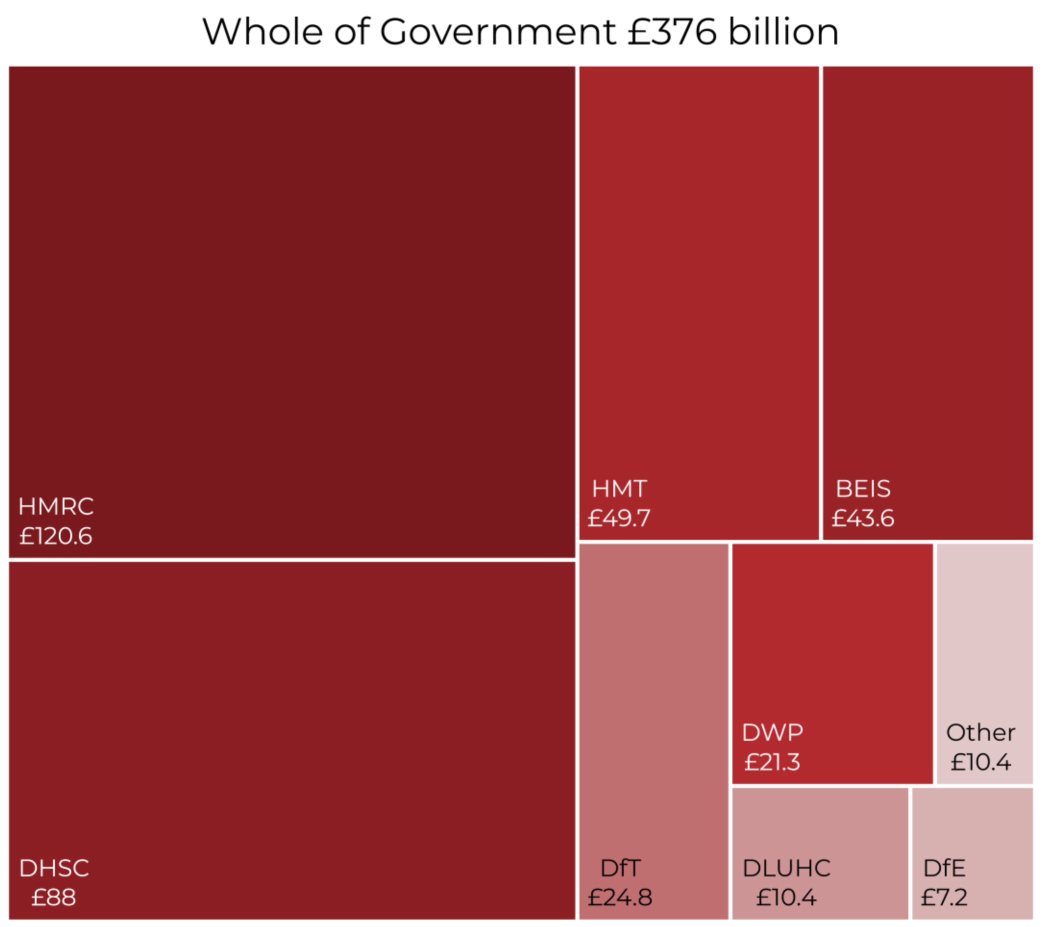
Source: NAO Covid-19 cost tracker

1.73 Within the tracker interactive charts are also available showing original estimated cost, current spend, or support by lead departments.

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

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

Figure 1.E Whole of government estimated lifetime cost (£ billion)



Source: NAO Covid-19 cost tracker

1.76 The chart above presents the estimated lifetime cost of Covid-19 measures across government. Further departmental breakdowns showing the largest support measures implemented by each department are available within the tracker itself. Additional information drawn from the 2021-22 Annual Reports and Accounts of key departments is shown below.

1.77 HM Treasury has taken ownership of the Cost Tracker from the NAO for the June 2023 publication. The tracker is currently in development and is due to be published in June 2023. This data will be drawn on for WGA 2021-22. A further cost tracker will be published in 2024.

Limitations of the NAO Covid-19 cost tracker

The NAO note that their Covid-19 cost tracker data has limitations which include:

Verifying the data: the data provided is cleared with relevant government departments; however, to allow the NAO to publish financial data in a timely way, they do not audit the data. It is published as provided by departments.

Completeness: not all departments were able to provide all the information requested. In some cases where data was missing, the NAO rolled forward cost and spend estimates from the September 2021 version of the Covid-19 tracker. For some measures where there has been spend, data may not be available.

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

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

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

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

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

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

1.78 The Department's strategic priorities during 2021-22 which related to Covid-19 were:

- Support business through the pandemic and recovery, engaging closely to understand needs and delivering vital support schemes
- Managing economic shocks, helping to protect businesses and jobs where available
- Support a safe return to workplaces, restoring jobs and livelihoods and rebuilding consumer confidence
- Ensure the continued development and manufacture of vaccines for deployment in the UK and overseas to protect lives

1.79 Since March 2020, the Department provided local authorities with additional funding with £26.8 billion of Covid-19 grants to allocate to eligible businesses.

1.80 The core Department has spent:

- £4.4 billion on grants to support businesses through the pandemic
- £1.6 billion on support to businesses through the Coronavirus Business Interruption Loan Scheme (CBILS)/Coronavirus Large Businesses Interruption Loan Scheme (CLBILS) and Bounce Bank Loan Scheme (BBLS) loan guarantee schemes

1.81 Key Covid-19 performance metrics:

Business and value of loans supported by British Business Bank Covid-19 debt schemes	**Value £bn**	**Facilities approved** (as at 31 March 22)
Coronavirus Business Interruption Loan Scheme (CBILS)	26.4	109,877
Coronavirus Large Business Interruption Loan Scheme (CLBILS)	5.6	753
Bounce Back Loan Scheme (BBLS)	47.4	1,560,309
Future Fund	1.1	1,190
The Recovery Loan Scheme (RLS)	3.4	15,000
Total	**83.9**	**1,687,129**

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

1.82 The Department was central to the Government's response to Covid-19 and it continued to adapt in those unprecedented times. Although the impact of the pandemic has changed in comparison to 2019-20 and 2020-21, the response remained the main priority for the Department throughout 2021-22.

1.83 As a result of the pandemic, the Department focussed on operational delivery and front-line response to the pandemic. This was reflected in 2021-22 following the emergence of the Omicron strain of the virus, with the purchasing of additional vaccines and antivirals, as well as further funding being provided to the NHS and Adult Social Care to support the overall response.

1.84 The Department has now moved forward with the Living with Covid strategy, and the Department is returning to steady state ways of working.

1.85 The Department's 2021-22 achievements include:

- 91.8% of the population vaccinated with their first dose of the Covid-19 vaccine
- £13.7 billion funding to the NHS to support frontline response during 2021-22
- £5.9 billion Covid-19 funding secured to procure 179 million doses and deploy 89 million vaccinations

1.86 As part of Government's response to the Coronavirus pandemic the Department received the following funding for 2021-22:

	Expenditure £bn
Supporting the frontline response	13.7
Procurement, supply and deployment of the Covid-19 vaccine	5.1
NHS Test & Trace	16.0
Personal Protective Equipment	2.4
Infection Control and other grants	1.1
Covid-19 medicines, treatment and R&D	0.8

Covid-19 spotlight on: HMRC

1.87 In 2021-22, the Department continued to deliver financial support schemes that helped millions of individuals and businesses and protected the UK economy during the pandemic. The Department delivered financial support through the following schemes:

- **Coronavirus Job Retention Scheme (CJRS):** CJRS was created to pay a proportion of the wages of employees who were furloughed during the Covid-19 pandemic.
- **Self-Employment Income Support Scheme (SEISS):** SEISS was created to support self-employed individuals and members of partnerships whose businesses had been impacted by Covid-19.
- **Statutory Sick Pay Rebate (SSPR):** SSPR was launched to help small to medium-sized employers with the cost of statutory sick pay during a severe wave of Covid-19.
- **Working Households Receiving Tax Credit scheme (WHRTC):** The government made a one-off payment of £500 to working households receiving tax credits, to provide extra support during the pandemic.
- **Other measures:** Over the course of the pandemic, the Department delivered more than 80 targeted smaller measures in response to Covid-19.

	Expenditure £bn
CJRS	68.0
SEISS	28.0
SSPR	0.1
WHRTC	0.7
Total	**96.8**

Covid-19 spotlight on: Department for Levelling Up, Housing and Communities[8]

1.88 The Department continued to play a crucial role in the government's response to the Covid-19 pandemic through the year, with interventions across housing, local government and communities, to reduce transmission, protect the vulnerable and to help the country recover.

1.89 The Department provided £10.7 billion of support to homelessness and rough sleeping, shielding, local government and other general Covid-19 responses:

	Expenditure £bn
Protect and Vaccine	0.03
Homelessness Prevention Grant Top Up	0.07
Community Champions/Covid-19 Additional Relief Fund/Covid Enforcement and Compliance	0.02
Reopening High Streets Safely	0.03
Covid Local Council Tax Support	0.7
Covid 20-21 Tax Income Guarantee Scheme	0.1
Expanded Retail Discount	0.8
Covid-19 Expenditure Support	5.8
Covid-19 Additional Relief Fund	1.6
Sales, Fees and Charges	1.5
Local Government Total	0.3
Total	**10.7**

[8] During 2020-21, the Department for Levelling Up, Housing and Communities was called Ministry of Housing, Communities and Local Government

1.90 Alongside the Department's work on delivering Covid-19 support, the Department worked to respond to the impact of the pandemic on specific areas:

- **Housing:** The Department has set out a mission to halve the number of non-decent rented homes by 2030, with the biggest improvements in the lowest performing areas.
- **Homelessness Prevention:** The government took unprecedented action to support renters during the pandemic with measures to delay evictions of tenants in both the social and private rented sectors and help renters pay their rent. This included legislation to require landlords to provide longer notice periods. These measures helped reduce the risk of transmission of the virus that arises from movement and homelessness. As part of the government's mission to protect people from the Omicron variant, the Department launched the £28 million Protect and Vaccinate programme in December 2021 to support people sleeping rough to get their Covid-19 vaccines and move into safe accommodation over the winter.
- **Support to Local Government and Communities:** The Department carried out 19 rounds of Covid-19 financial monitoring; an important source of evidence in our work to understand the impacts of Covid-19 on local authority capacity and capability. The Department continues to closely monitor the sector's finances as we emerge from the pandemic.

Transactions and balances with the EU

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

1.92 A fuller explanation of the relationship is set out in Annex E of the European Union Finances: statement on the EU Budget and measures to counter fraud and financial mismanagement.[9]

1.93 Transactions, balances and commitments between the UK public sector and the EU are recognised in a number of places in WGA 2020-21:

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

Nature of balance	Note	Value (£bn)	Consists of
Grant expense	9	11.8	UK's contribution to the EU budget
Grant expense	9	1.3	EU grants and subsidies paid by the UK on behalf of the EU
Income	5	2.3	Income from the EU to reimburse grants and subsidies
Trade and other receivables	15	2.3	UK's interest in the European Investment Bank (EIB)
Trade and other receivables	15	1.4	Receivable relating to the EU Financial Settlement
Provisions	22	36.3	Provision for pre-2020 EU budget commitments
Contingent liabilities	29 & 30	31.0	Commitments to the EIB, and loans to EU member states and third countries that are ultimately backed by the EU budget

1.94 The income from the EU includes income received by the Department for Environment, Food and Rural Affairs (DEFRA) to reimburse them for grants and subsidies paid. The grants and subsidies paid by the UK on behalf of the EU are largely made up of £0.5 billion of grant payments made by DEFRA and £0.5 billion by Education Authority Northern Ireland. The grants and reimbursements are reported separately to ensure transparency of the flow of funds.

1.95 Under the Withdrawal Agreement the UK's paid in capital in the EIB of €3.5 billion will be repaid to the UK and is recognised as a receivable.

1.96 The provisions relate to outstanding EU Budgetary commitments (the so-called RAL) at the end of 2020, and EU pension obligations and rights to other employment-related benefits at the same date. These provisions represent payments and receipts to be recognised several years into the future. More information on these can be found in Note 22 to this WGA and in Note 17 of HM Treasury's 2020-21 accounts.

1.97 The contingent liabilities represent a commitment of the UK government should it be needed, so no liability is recognised on the balance sheet. In addition, these are considered remote contingent liabilities, meaning they are considered to have a very low chance of crystallising. The government's commitment for callable capital under the EIB is £30.7 billion (£31.6 billion in 2019-20), and the UK's maximum liability under loans backed by the EU budget is £0.3 billion (£10.6 billion in 2019-20). More information on these can be found in Notes 29 and 30 to this WGA, and in Note 17 of HM Treasury's 2020-21 accounts

The financial settlement

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

1.99 The Withdrawal Agreement[10] sets out the financial settlement that was reached on the UK's financial rights and obligations as a departing Member State.

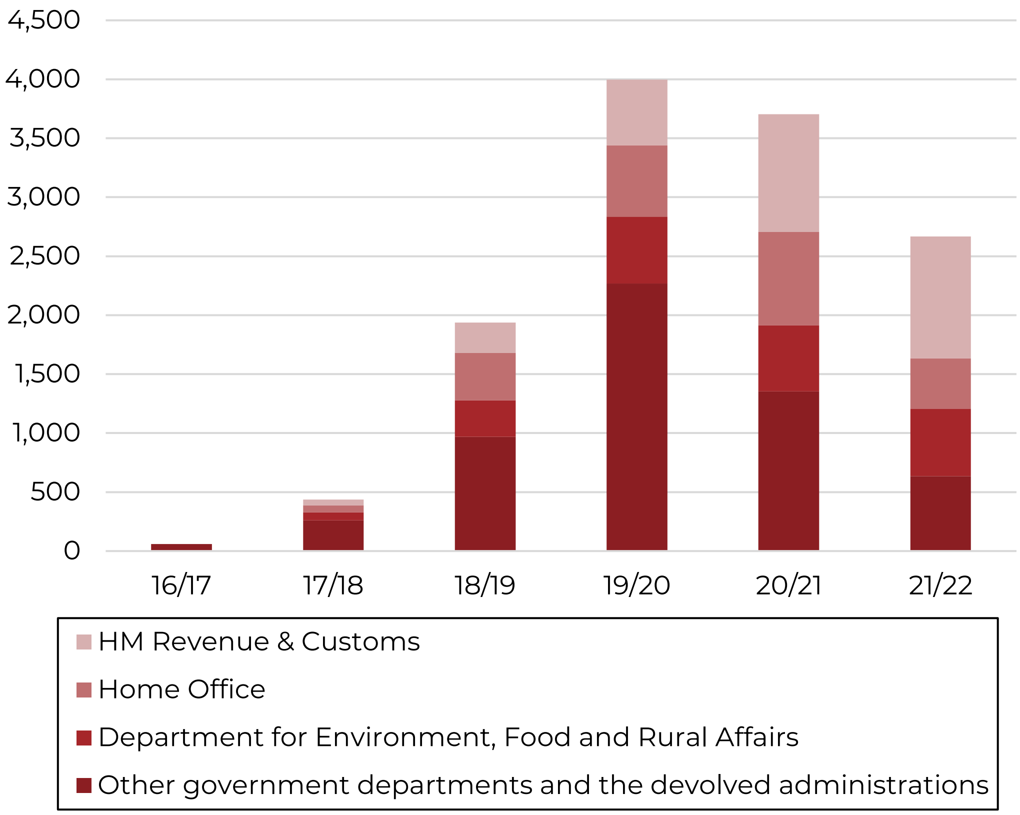
Spending on EU Exit preparations

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

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

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

Figure 1.F EU Exit funding allocations (£million)



Source: EU Finances Statement 2020

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

What does WGA not include in respect of EU exit

WGA does not include:

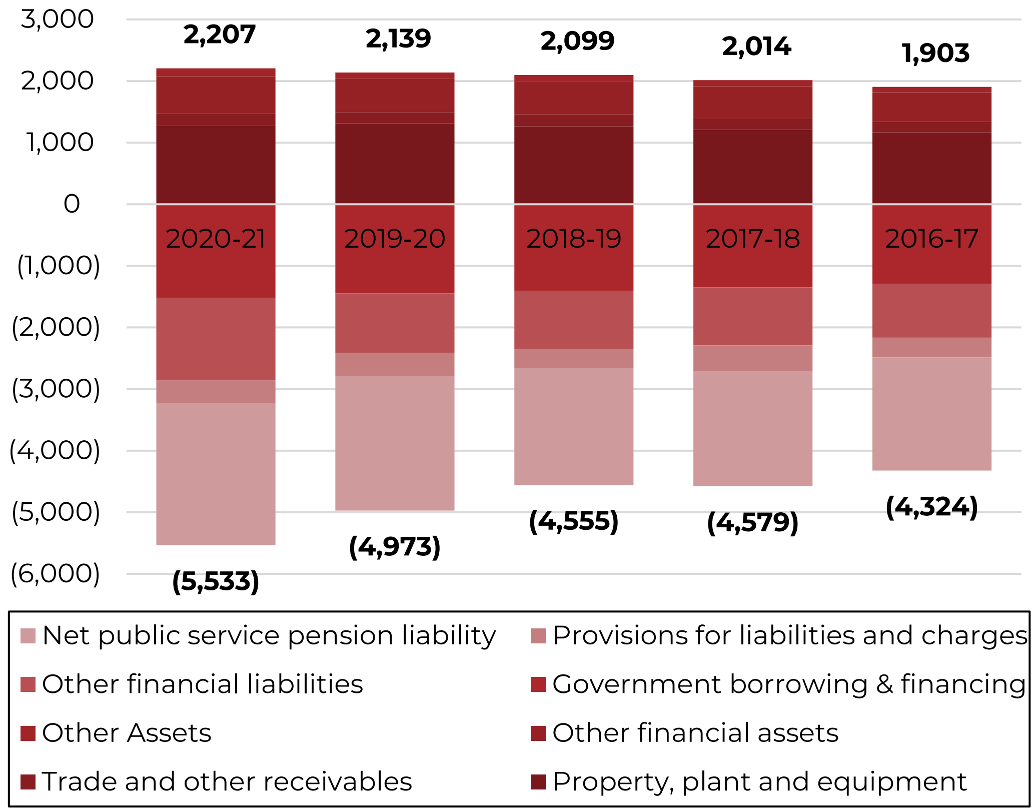
- liabilities relating to policy or legislative effects on the wider economy, if these effects do not meet the criteria set out in the accounting standards
- transactions between entities not covered by WGA (for example private companies) and the EU
- the effect of EU exit on the economy; in addition,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

Report on Assets and Liabilities

Statement of Financial Position

1.103 The purpose of the Statement of Financial Position, also known as a balance sheet, is to show the financial status of an entity at a specific point in time. In WGA, the Statement of Financial Position shows what the UK public sector owns (its assets) and how much it owes (its liabilities). This information is more valuable when several consecutive periods are grouped together, so that trends in the different items can be viewed. A reduction in the amount of data collected for 2020-21 has reduced the comparability of figures for this year, which affects some areas of the accounts more than others. However the overall proportion of data collected remains high. See above from paragraph 1.6 for further details.

Figure 1.G Assets and liabilities of the UK over time (£ billion)



1.104 In the chart above, we can see the liability part of the balance sheet increasing at a faster rate than the assets. In the last five years, a significant factor for the increase in liabilities has been changes in discount rates used to calculate major liabilities such as net public service pension liability and provisions. The following sections explore the most significant assets and liabilities, and the underlying income and expenditure in 2020-21.

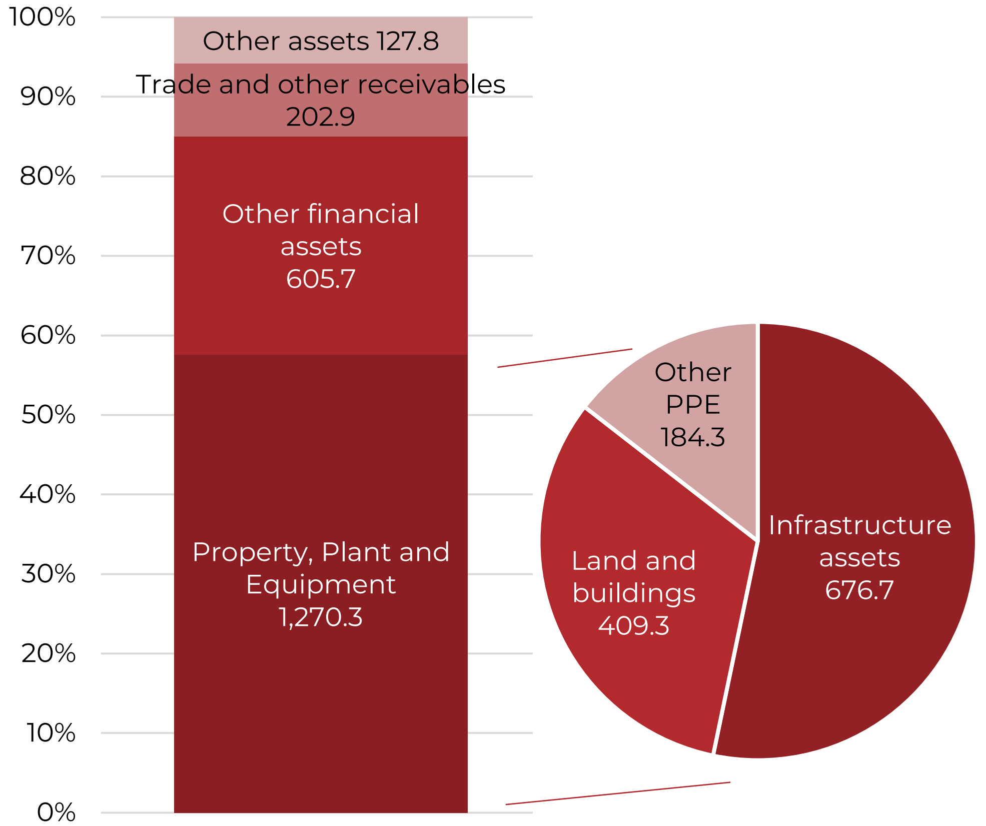
1.105 WGA consistently shows a net liability position for the UK public sector, due to the way tax revenue is accounted for. Future payments such as public service pensions are recognised as liabilities in WGA. However, a corresponding asset is not recognised for future tax revenue, as the future taxable events (like firms making profits) have not yet occurred.

Assets

Total Assets £2,206.7 billion

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

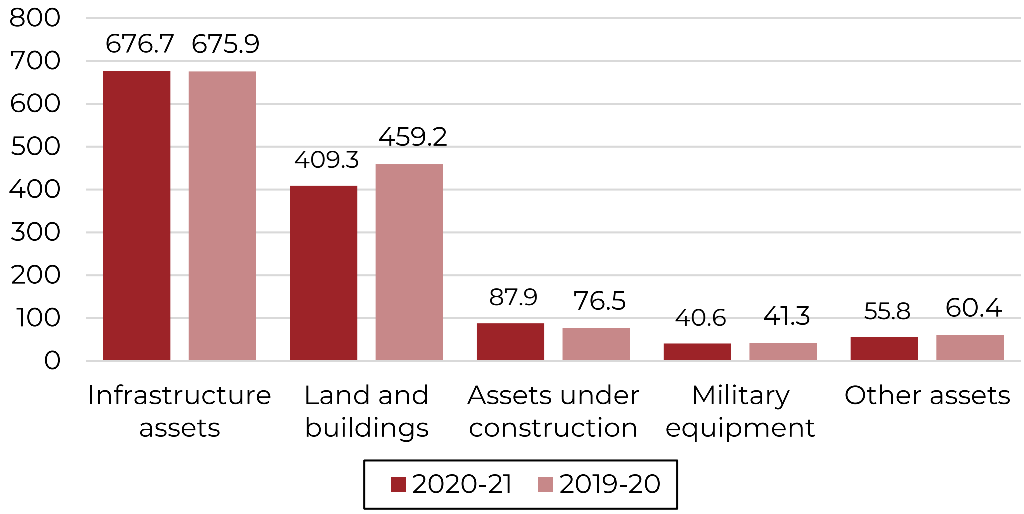
Figure 1.H Breakdown of assets (£ billion)



1.107 The most significant assets owned by the public sector are property, plant and equipment (PPE) (which includes land and buildings, infrastructure and military equipment), financial assets and trade receivables. Almost 58% of Assets is PPE, 53% of which is infrastructure. The largest contributor to the public sector's infrastructure is the Rail Network valued at £336.8 billion (2019-20 £332.3 billion). Included in other assets is intangible assets of £41.0 billion (2019-20: £40.2 billion). Intangible assets are measured in accordance with the accounting standards. There is a broader definition of intangible assets which encompasses knowledge, techniques and know how, which supports broader consideration of public value. These are sometimes referred to as knowledge assets. As they do not meet the recognition requirements of the accounting standards they are not captured in WGA.

Property, Plant and Equipment £1,270.3 billion

Figure 1.I Property, Plant and Equipment breakdown (£ billion)



1.108 Overall, the value of property, plant and equipment reported in WGA decreased by £43.0 billion or 3.3% in 2020-21. The most significant components of the property, plant and equipment total are infrastructure assets and land and buildings. Further detail follows on each of these balances.

Infrastructure Assets £676.7 billion

1.109 Infrastructure assets increased by £0.8 billion (0.1%) compared to the prior year. A breakdown of public sector infrastructure assets by type is shown in the table below.

Table 1.A Breakdown of infrastructure assets

Held by	2020-21 £bn	2019-20 £bn
Network Rail	336.8	332.3
Highways England / Department for Transport	134.6	128.5
Scottish Water	64.8	63.1
Northern Ireland Department for Infrastructure	28.5	28.4
Scottish Government Strategic Road Network	20.8	20.9

Welsh Government	19.8	19.6
Other	7.6	8.0
Total central government and public corporations	**612.9**	**600.8**
Transport for London	19.1	19.0
Highways Infrastructure and other local government assets	44.7	56.1
Total local government	**63.8**	**75.1**
Total Infrastructure assets	**676.7**	**675.9**

1.110 Aside from the decrease to local government driven by missing data, the most significant movements related to Highways England and Network Rail. The increase in the value of Highways England and Network Rail assets are primarily driven by revaluation gains, arising from the estimated annual increase of building a modern equivalent infrastructure asset. Given the high value and often specialised nature of the assets, these estimates are subject to a significant amount of uncertainty. More information on sensitivity analysis can be found in Note 2.4. The significant increase relating specifically to Highways England is driven by additions to the strategic road network.

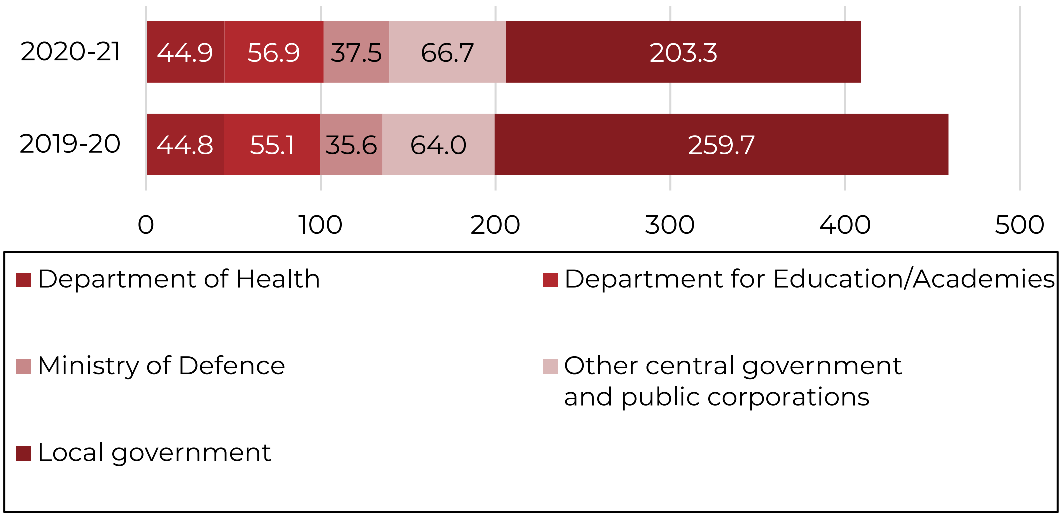
1.111 Central government values their infrastructure assets at depreciated replacement costs. Local government values their assets (of which highways infrastructure is the most significant) based on historical cost. WGA has an audit qualification as a result of these inconsistent accounting policies.

1.112 The carrying value of the local authority networked assets is £63.8 billion (2019-20: £75.1 billion). This compares to the ONS estimate for the depreciated replacement cost of these networked assets of £149.9 billion as at 31 December 2020 (2019: £146.9 billion). Infrastructure assets shown in WGA are therefore likely to be understated by at least £86.1 billion. See Note 2.4 to the accounts for further detail.

Land and buildings £409.3 billion

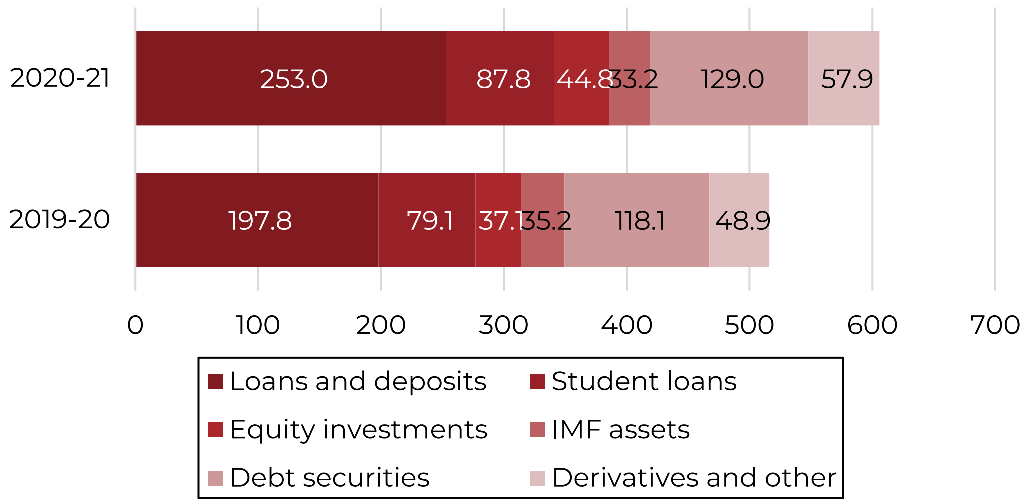
1.113 The value of land, buildings and dwellings reported in WGA decreased by £49.9 billion or 10.9% in 2020-21. The decrease reflects the impact of entities which contributed to the 2019-20 total but which did not submit data to WGA in 2020-21. The decrease also reflects indexation adjustments and reclassifications.

Figure 1.J Government land and buildings (£ billion)



Other financial assets £605.7 billion

Figure 1.K Breakdown of other financial assets (£ billion)



1.114 The UK public sector holds a range of financial assets. Some are held as part of the government’s normal operations to manage cash and foreign exchange risks. Others were acquired to support specific policy objectives. The largest balance in loans and deposits is Term Funding Scheme and TFSME loans, held by the Bank of England (£114.9 billion). The largest balance in debt securities is held by the Exchange Equalisation Account (£81.8 billion). The largest student loan balance is held by the Department for Education (£77.4 billion). Further details on these significant balances are included below.

Term Funding Scheme and TFSME loans £114.9 billion

1.115 Assets held under the Term Funding Scheme (TFS) decreased by £67.7 billion as a result of loans maturing in 2020-21 and the scheme winding down. The Term Funding Scheme (TFS) was part of a comprehensive package of easing measures announced by the Monetary Policy Committee in August 2016. The primary objective of the TFS was to reinforce the pass through of the August 2016 cut in Bank Rate to lower the interest rates faced by households and companies, allowing the reduction from 0.5% to 0.25% to have broadly the same impact as cuts made when rates were further from zero.

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

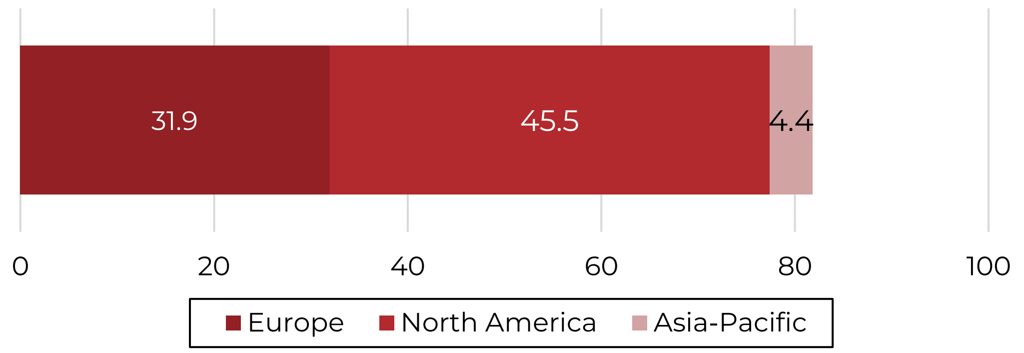
1.117 The TFSME was announced on 11 March 2020 as a package of Bank of England measures to respond to the economic shock from Covid-19. It operated in a similar way to the TFS to help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefitted from lower interest rates. It was also designed to incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption and provide additional incentives for banks to support lending to SMEs (small and medium enterprises) as these typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.

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

Exchange Equalisation Account – Debt Securities £81.8 billion

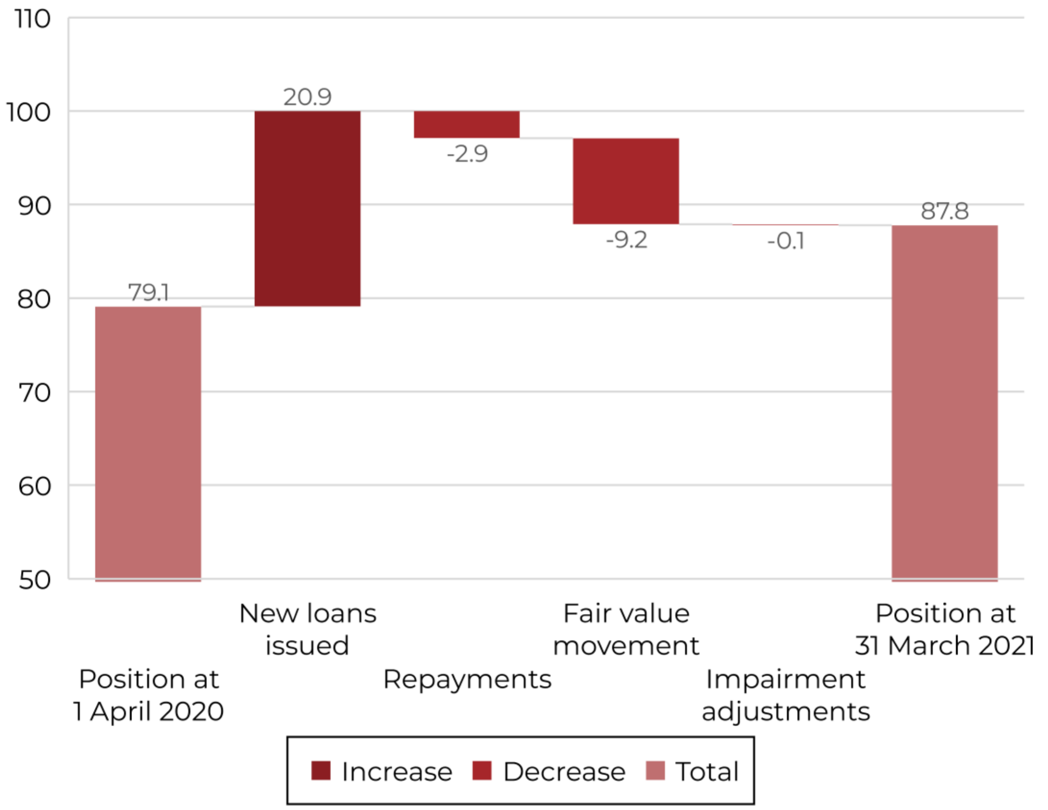
1.119 Foreign currency reserves are held by the Exchange Equalisation Account on a precautionary basis in the event of any unexpected shocks, or if required to meet any future change in exchange rate policy. The chart below shows the geographical spread of EEA debt securities.

Figure 1.L Concentration of debt securities by geographical region (£ billion)



Student loans: 87.8 billion

Figure 1.M Change in student loan valuation (£ billion)



1.120 The student loan portfolio continues to expand. The value of outstanding student loans is forecast to reach £498.6 billion by March 2070[11]. Repayment rates vary by loan type, but the average of the government's long-term estimates is that around 50% of the value of loans issued in 20-21 will be repaid.

---

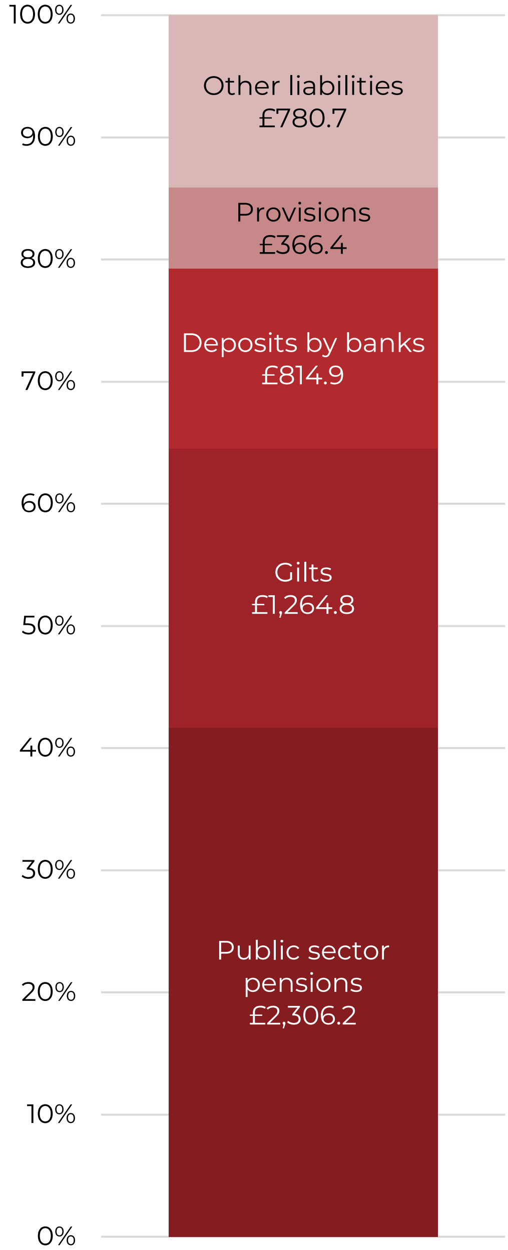
[11] Student loan forecasts for England, Financial year 2020-21 – Explore education statistics – GOV.UK (explore-education-statistics.service.gov.uk)

Liabilities

Total liabilities £5,533.0 billion

1.121 The UK public sector holds a series of significant liabilities: government borrowing, public sector pension liabilities, other financial liabilities, payables and provisions.

Figure 1.N Breakdown of liabilities (£ billion)



Other liabilities are summarised in paragraph 1.123 below

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

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

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

Gilts are the main form of government borrowing. This will drive the government's need to access the bond market to fund borrowing. At the end of 2020-21, the main bulk of gilts are due for redemption before 2050.

The OBR produces projections for **public sector pensions** up to 2072. Given the nature of the liability, pay-outs will be made for many decades to come.

1.122 Other liabilities is made up of short-term and long-term items. Short-term liabilities range from trade and other payables, to Treasury bills and IMF Special Drawings Rights. Figures can fluctuate depending on the underlying business activity. Short-term liabilities also includes bank notes in circulation which is a liability repayable on demand, although it can be considered not to have a maturity and its value will fluctuate over time depending on the value of notes in circulation. Long-term liabilities range from PFI contracts ending in 2048, to Pension Protection Fund provisions estimated to 2096, to obligations under finance leases with varying terms, including one held by the Ministry of Defence for homes for service personnel which ends in 173 years.

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

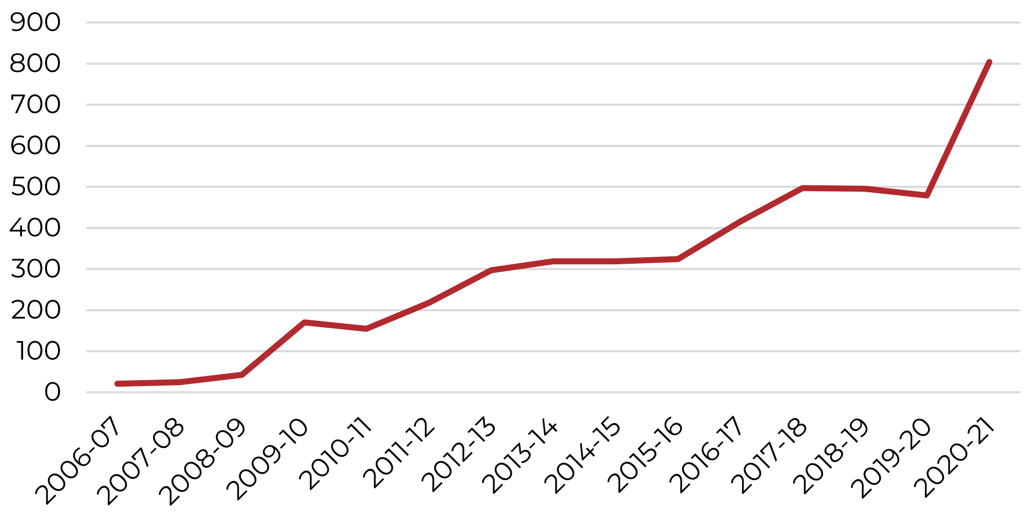
- deposits by banks
- government borrowings
- provisions
- public sector pensions

Deposits by banks £803.8 billion

1.124 Deposits by banks have increased by £324.4 billion from £479.4 billion in 2019-20. They mainly comprise reserves accounts held at the Bank of England. Reserves accounts are sterling current accounts which banks and building societies hold at the Bank of England. Repayable on demand, they are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies.

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

Figure 1.O Deposits by banks at Bank of England over the last 15 years



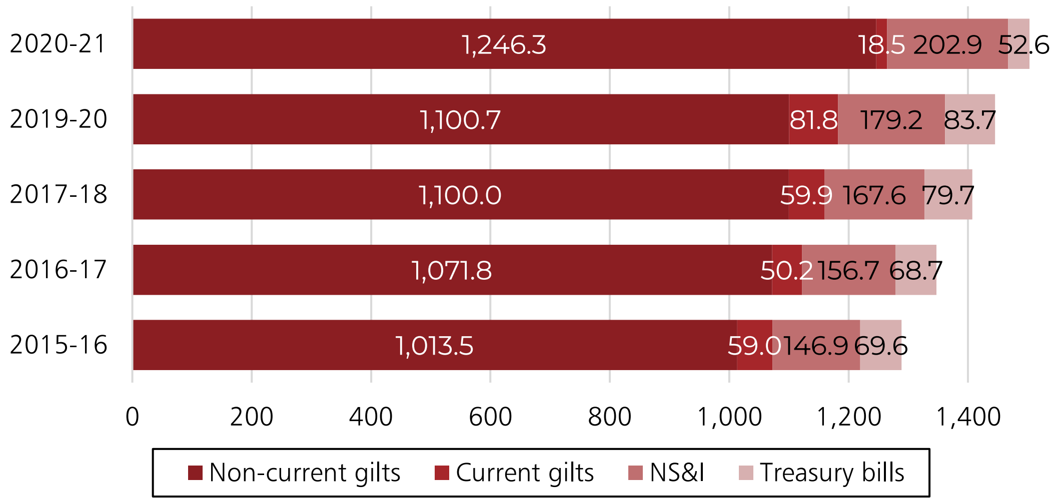
1.126 Figure 1.O above shows how deposits by banks at the Bank of England have increased over the last 15 years. During this time the Bank of England has used new monetary policy tools, such as

Quantitative Easing (QE) and the Term Funding Scheme, to boost spending and investment in the economy and help the independent Monetary Policy Committee meet its inflation target. These policies are funded by creating additional central bank reserves, which increases deposits by commercial banks at the Bank of England. Policies which create central bank reserves have been used multiple times since 2008, notably there have been rounds of QE in 2009, 2012, 2016 and in November 2020, which have led to several sharp increases in deposits by banks over the last 15 years.

1.127 In the case of QE, the basic mechanics involve the Bank of England creating central bank reserves in order to finance a loan to the Bank of England Asset Purchase Facility Fund (BEAPFF). The BEAPFF uses this money to buy gilts and high-quality corporate bonds from the private sector.

Government borrowing £1,520.3 billion

Figure 1.P Government borrowing over time



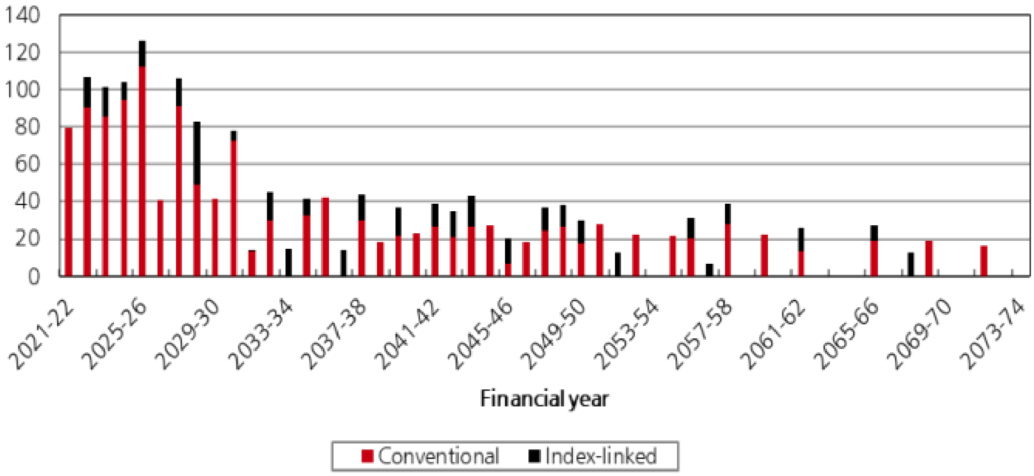
1.128 Government borrowing is achieved through the issuance of gilts and Treasury bills. The total nominal value of central government wholesale debt (excluding government holdings) as at 31 March 2021 was £1,520.3 billion, up from £1,445.4 billion as at 31 March 2020.

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

1.130 Gilts are the primary form of government debt. The gilt redemption profile as at February 2021, as disclosed in the Debt Management Office (DMO) Debt management report is included in Figure 1.Q. This shows that some gilts are due for redemption as far in the future as the 2070s, but the bulk are due for redemption before 2050.

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

Figure 1.Q Redemption profile of gilts

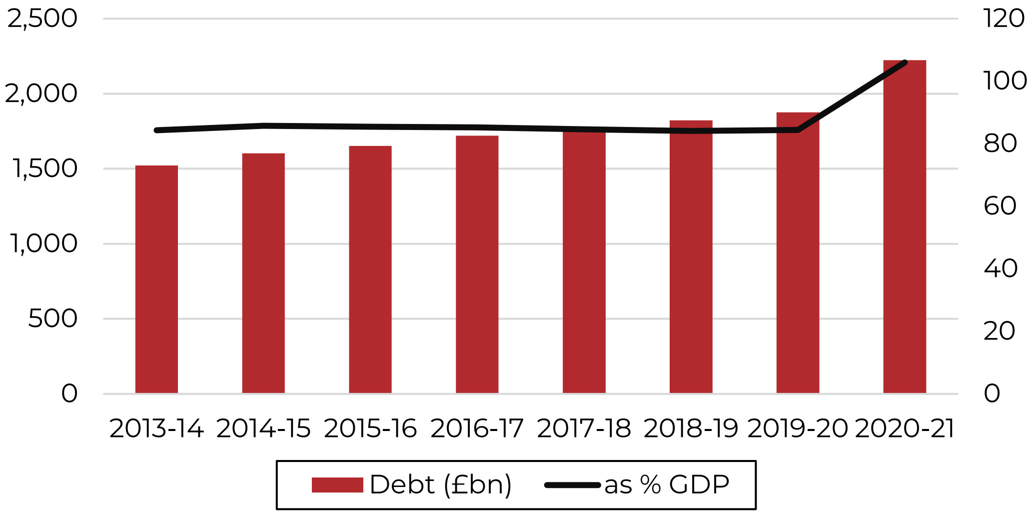


Source: DMO

1.132 At the end of the financial year ending March 2021, the statistical measure of UK general government gross debt was £2,224.5 billion, equivalent to 106.0% of gross domestic product (GDP) (source ONS).[12] This represents an increase of £348.2 billion since the end of the financial year ending March 2020, and debt as a percentage of GDP increased by 21.6 percentage points from 84.4% over the same period.

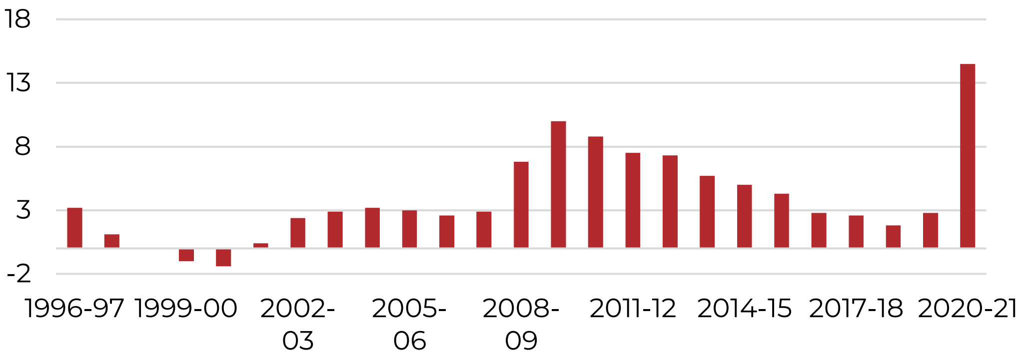
[12] UK government debt and deficit - Office for National Statistics (ons.gov.uk)

Figure 1.R General government gross debt as a percentage of GDP over time



1.133 During 2020-21, the general government gross debt increased by £348.2 billion, equivalent to an increase of 21.6 percentage points as a proportion of GDP. The UK government net borrowing (deficit) as a percentage of GDP for the year ending March 2021 was 11.7 percentage points higher than in the same period the previous year (source ONS).

Figure 1.S General government net borrowing (deficit) as a percentage of GDP over time



Provisions £366.4 billion

1.134 Total provisions decreased by 2.2% (or £8.4 billion) from £374.8billion in 2019-20 to £366.4 billion in 2020-21. The decrease was largely due to provisions utilised in year, particularly in the areas of Other and nuclear decommissioning. Changes in the discount rate increased total provisions by £2.4 billion (2019-20: £9.1 billion decrease). For more information on the impact of discount rates on the value of the provision, please see Note 22 in the notes to the accounts.

Figure 1.T Movement by types of provisions (£ billion)

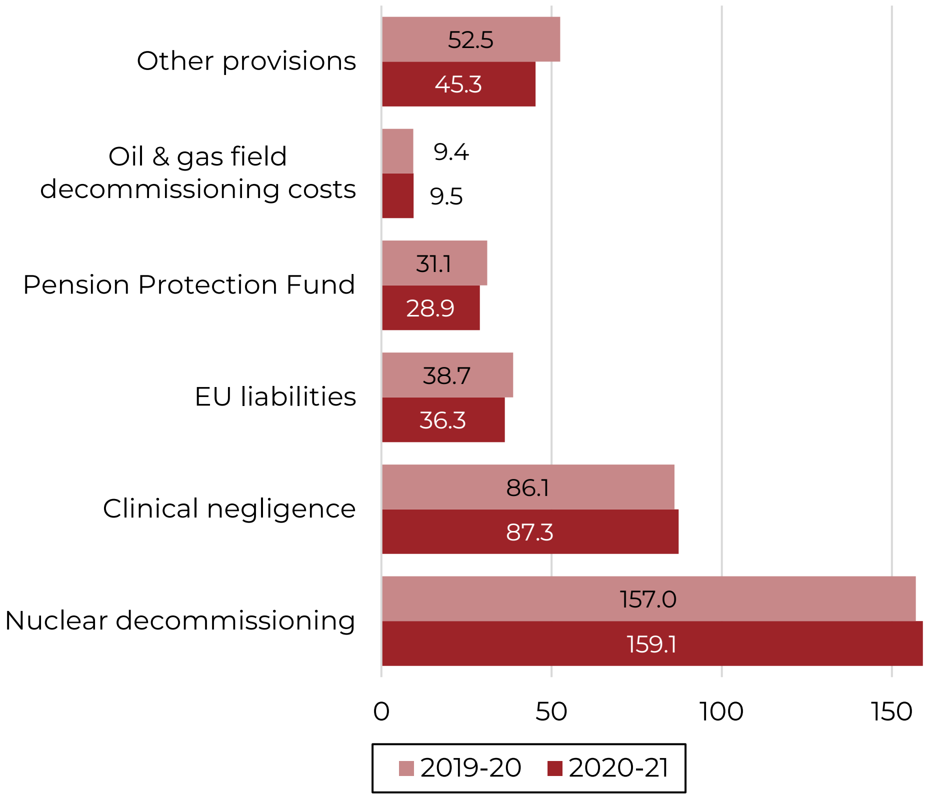
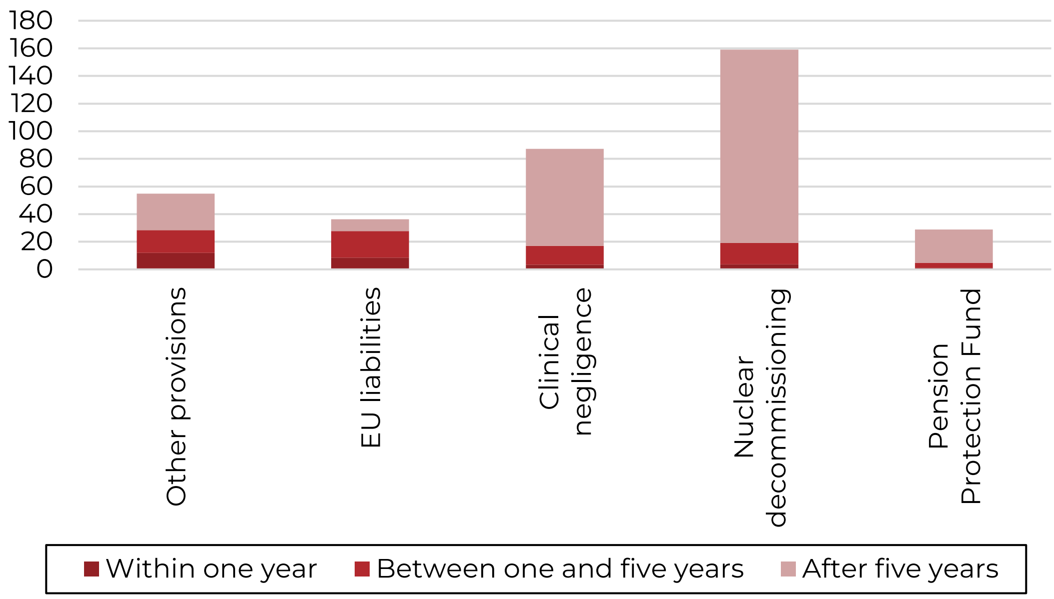
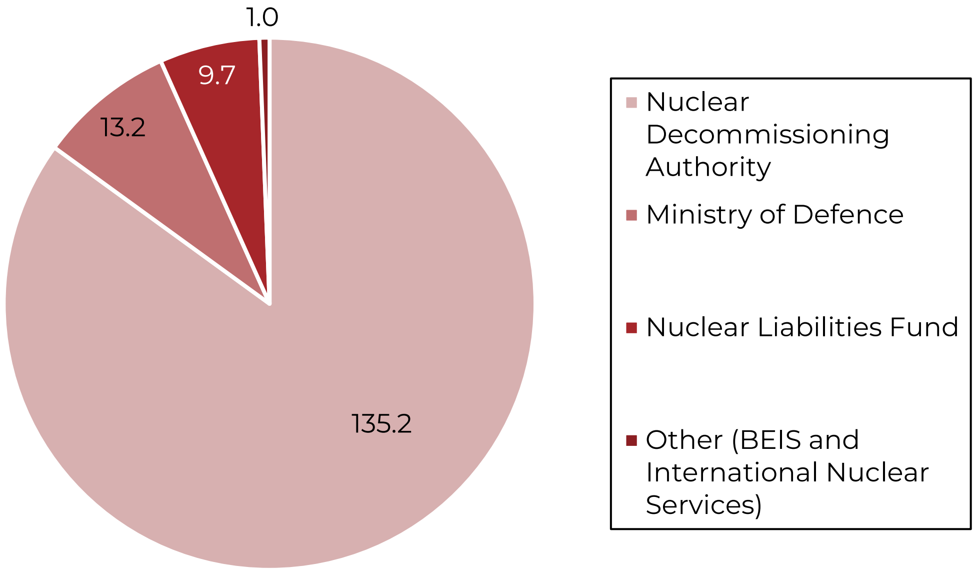


Figure 1.U Maturity of provisions (£ billion)



Nuclear decommissioning provisions £159.1 billion

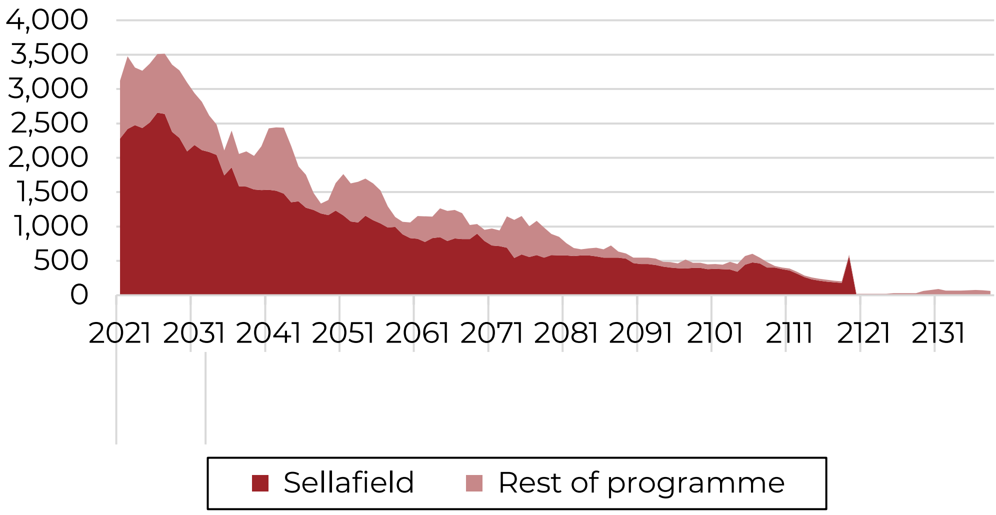
Figure 1.V Breakdown of the nuclear decommissioning provision (£ billion)



1.135 The provision for nuclear decommissioning increased by £2.1 billion, from £157.0 billion in 2019-20 to £159.1 billion in 2020-21. Changes in the discount rate increased this provision by £2.1 billion (2019-20: £0.2 billion increase).

1.136 Figure 1.W illustrates the expected profile of pay-outs by the Nuclear Decommissioning Authority (NDA) which total £132.1 billion before discounting and £135.2 billion after discounting. This is the largest portion of the total provision of £159.1 billion.

Figure 1.W Expected profile of pay-outs by the NDA (£m, undiscounted)



Source: BEIS

1.137 The NDA realised many important plans and milestones during 2020-21. A programme to return high-level radioactive waste to German customers started at the end of 2020, with the first of three shipments to federal storage facilities in Germany. The waste results from the reprocessing and recycling of spent nuclear fuel at the Sellafield site, which had previously been used by utilities to produce electricity in Germany.

1.138 In the last few years, the Sellafield skyline has changed significantly as a result of the ongoing work to demolish two iconic chimneys. The project to remove the chimneys was a priority for Sellafield, as the ageing structures were surrounded by critical nuclear facilities in a congested area of the site. One of the stacks had to be demolished by hand because of the risk to the buildings containing nuclear material that surround it. The project to demolish the stack is now nearing an end with the stack reduced to a 30 cm stub.

1.139 In 2020, NDA set out plans for an Integrated Waste Management Programme which would deliver more sustainable, efficient and innovative ways of managing radioactive and non-radioactive waste. The new approach moves towards an approach based on the chemical and physical properties of the waste, rather than only the radiological classification.

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

Clinical negligence provision £87.3 billion

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

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

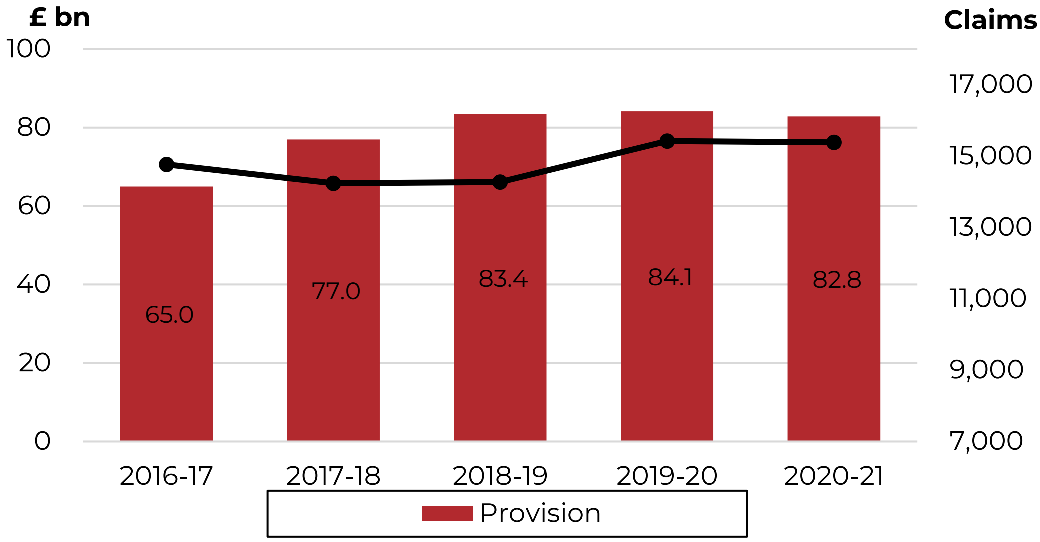
1.143 The drivers of claim costs are a combination of the number of claims received, the amount of compensation paid for those claims and the legal costs which are attached to them. Discount rates also have a significant effect on these costs.

1.144 The provision for clinical negligence claims recognised by NHS Resolution decreased by £1.3 billion or 1.5% in 2020-21, from £84.1 billion to £82.8 billion. The significant effects of the Covid-19 pandemic only materialised in 2020 and at 31 March 2021 there had not yet been many claims received related to Covid-19. An increase in the provision to reflect new risks generated by the pandemic was partially offset by the impact of a reduction in claims resulting from lower levels of usual activity in the NHS. Although the pandemic has materially affected activity in 2020-21 and the risk of clinical and non-clinical claims that arise from that activity, the estimated impact on the clinical negligence provision was fairly limited at 31 March 2021. This is because a large share (90%) of the provision is in relation to incidents that occurred prior to 2020-21, and the majority (approximately 65%) of the provision is as a result of claims arising from maternity activity. While there were some changes, maternity activities overall continued during the pandemic. In addition to the clinical negligence provision, £48.9 billion (2019-20: £49.7 billion) is included as a contingent liability for clinical negligence.

1.145 In 2020-21, NHS Resolution received 12,629 new clinical negligence claims, an increase of 952 claims (8.2%) from 2019-20. The number of new non-clinical claims, typically employers' and public liability claims, decreased by 26.3% to 2,759 in 2020-21. Further information on claims can be found on page 40 of NHS Resolution 2020-21 account.

1.146 The provision for liabilities as at 31 March 2021 represents the value of liabilities arising from incidents that occurred before 31 March 2021 at current prices. This figure includes claims received, and NHS Resolution's estimate of likely claims from incidents which have occurred but have yet to be reported (incurred but not reported, IBNR). Chart 1.CC provides further information.

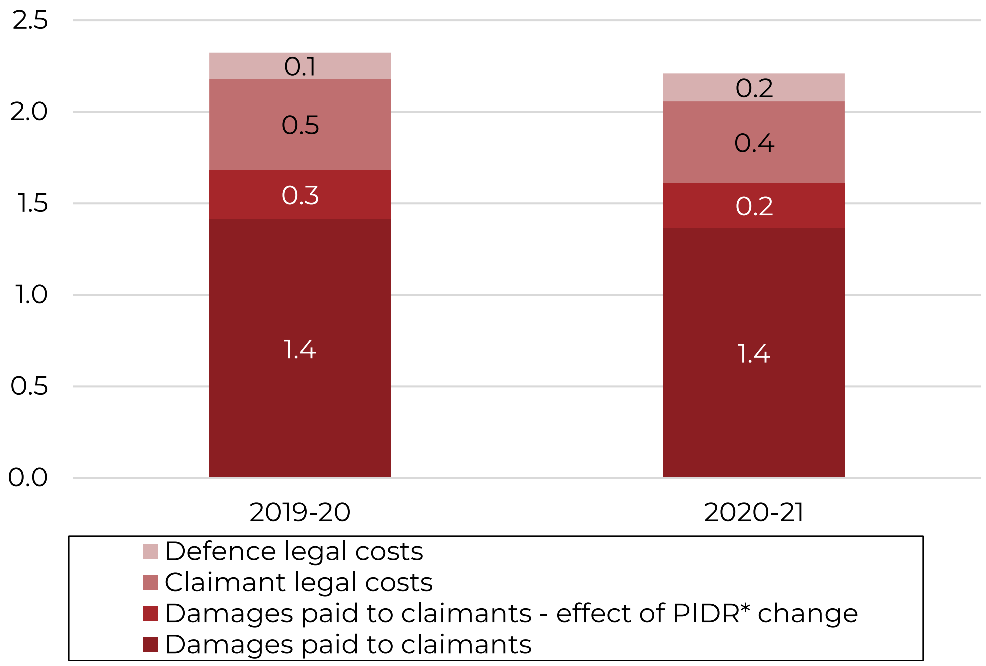
Figure 1.X NHS Resolution total provision for clinical and non-clinical negligence claims, and number of new claims reported in year



Source: NHS Resolution accounts 2020-21 as at March 2021

1.147 Figure 1.Y below provides a breakdown of the £2.2 billion of pay-outs made by NHS Resolution during 2020-21.

Figure 1.Y NHS Resolution pay-outs in year (£ billion)



Source: NHS Resolution accounts 2020-21 as at March 2021

* Personal Injury Discount Rate

1.148 The provision is an estimate and is sensitive to changes in key assumptions. As an example, for the Clinical Negligence Scheme for

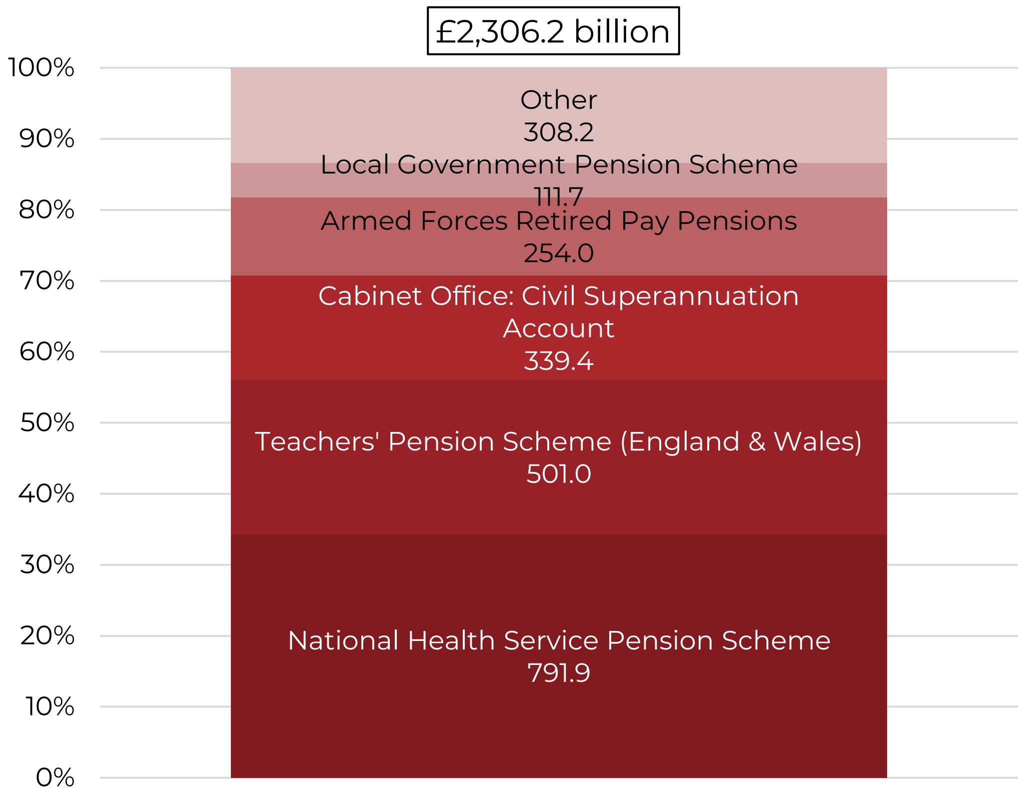
Trusts (CNST) the NHS Resolution accounts estimate a figure of £40.6 billion, with a reasonable upper range of £47.3 billion, and a reasonable lower range £33.1 billion. Further information can be found in the accounts of NHS Resolution.

1.149 During 2020-21, the majority of NHS Resolution claims were settled without formal legal proceedings (74.7% compared to 71.5% in 2019-20). Online mediation has proven to be effective. In 2020-21 there were 299 mediated cases and 77% of cases settled on the day mediation took place or within 28 days of the mediation. An increase in mediations reduces the rate of claims going into formal litigation, reducing the stress of that process for patients and healthcare staff and contributing to a further decrease in claimant legal costs, helping to reduce the overall cost to taxpayers.

Public sector pensions £2,306.2 billion

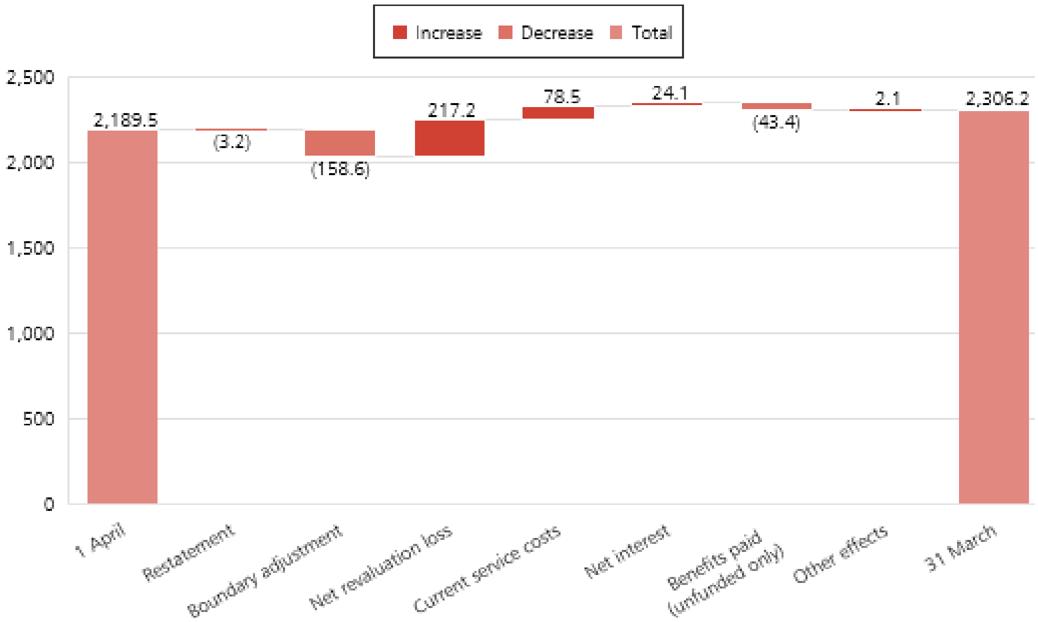
1.150 The net public sector pension accounts for 41.7% of total liabilities and is the largest liability in WGA. The net liability increased by £116.7 billion or 5.3% in 2020-21. It does not include the state pension, which is social security expenditure.

Figure 1.Z Net public sector pension breakdown



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

Figure 1.AA Change in net public sector pension liability



The largest public service pension schemes

1.152 Four single unfunded pension schemes make up 80.9% of the pension liability. These are: the National Health Service Pension Scheme (NHSPS), Teachers' Pension Scheme (TPS) (England & Wales), Cabinet Office Civil Superannuation (PCSPS), and Armed Forces Pension Scheme (AFPS).

Snapshot of the four biggest pension schemes

Pension Scheme	Increase in liability	Active members*
NHSPS	£103.9 billion	1,700,845
TPS	£48.8 billion	713,109
PCSPS	£27.5 billion	542,373
AFPS	£24.1 billion	295,681

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

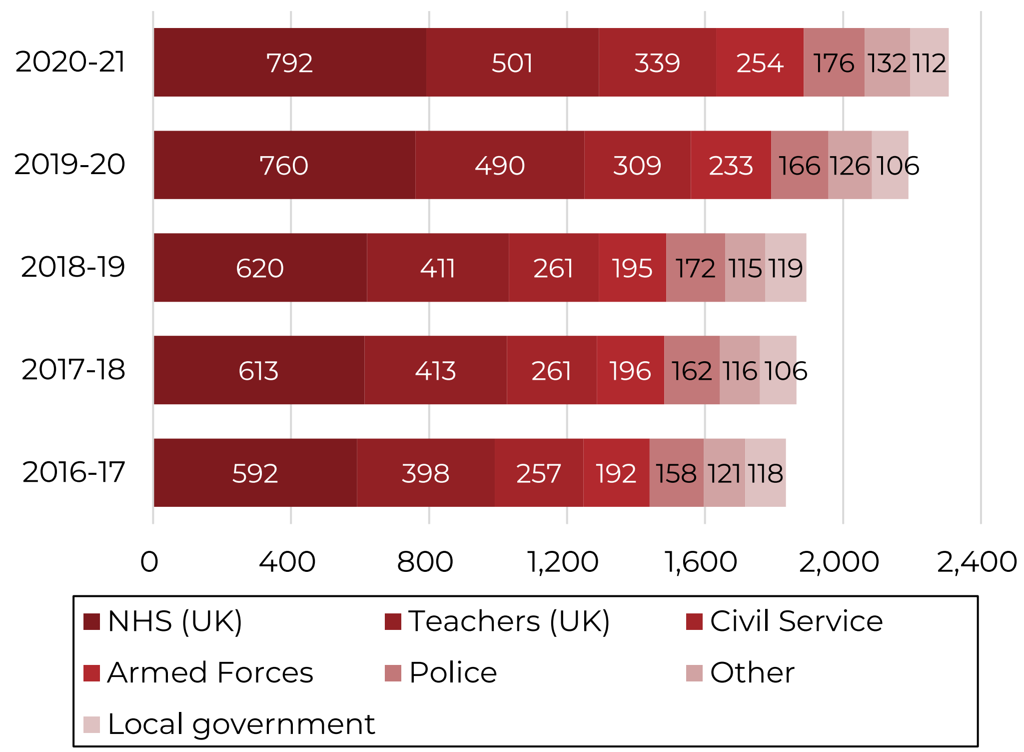
1.153 The four main schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". Pensions in payment and deferment are increased based on the change in the Consumer Price Index (CPI) in the 12 months to the end of the preceding September. As CPI at September 2018 was 1.7%, there was a 1.7% increase to these pensions in April 2020.

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

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

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

Figure 1.BB Pension liabilities over time



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

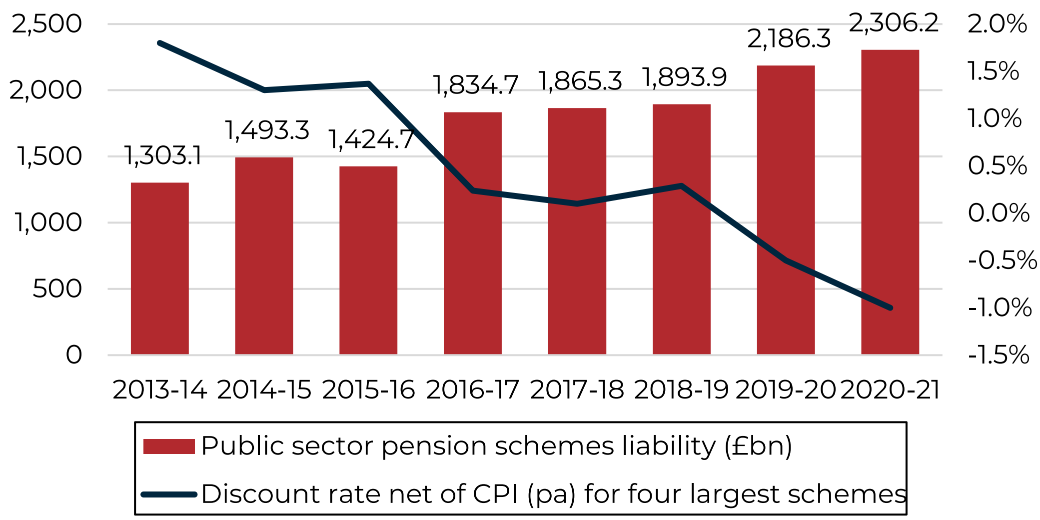
Discount rate

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

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

1.160 Figure 1.CC illustrates how the trend in this net discount rate compares with the trend in the public sector pension scheme liability over recent years. In 2020-21, there was a decrease to the central government net discount rate, from (0.5)% to (0.95)%. This alone would be expected to cause a loss on revaluation and increase the pension liability by around £200 billion. The actual loss on revaluation from changes in assumptions of £217.2 billion also includes the impact of other actuarial assumptions, as summarised below.

Figure 1.CC Discount rate trend



1.161 The net discount rate for the year 2021-22 (for the central government schemes) has been set at (1.3)% pa (a decrease from (0.95)% pa)[13]. We therefore anticipate an increase of perhaps around £175 billion in the reported public sector pension scheme liability when the 2021-22 WGA is published next year, solely as a result of this change in the net discount rate.

1.162 The net discount rate for the year 2022-23 (for the central government schemes) has been set at 1.7% pa. We therefore anticipate a decrease of perhaps around £1 trillion from the reported 31 March

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

2022 public sector pension scheme liability when the 2022-23 WGA is published, solely as a result of this change in the net discount rate.

Actuarial assumptions

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

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

1.164 Step changes in the liability can occur when key assumptions or data are updated, such as the ONS publication of population projections which are used to set life expectancy assumptions.

Maturity of public sector pensions

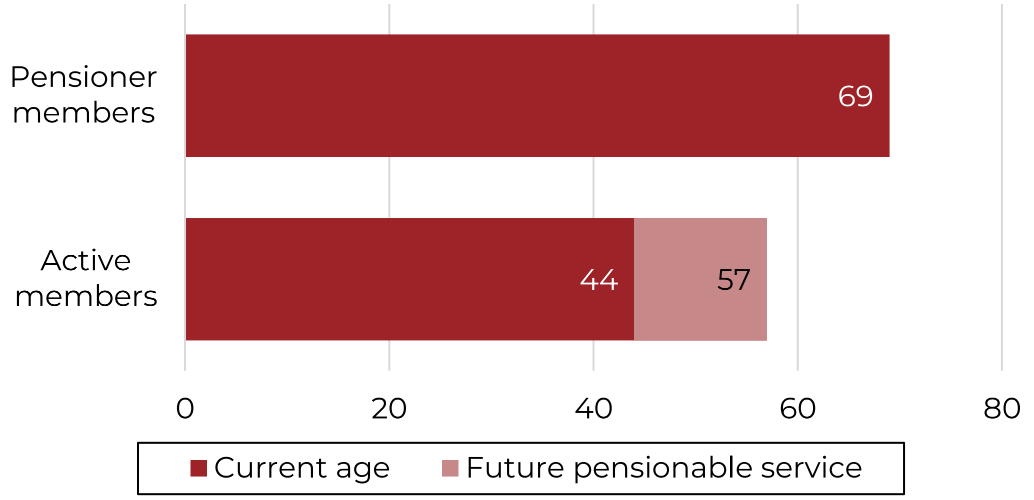
1.165 The table below shows the average life expectancy at 65 of male and female active and pensioner members. Active pension scheme members are those currently employed and paying in contributions, pensioner members are those being paid a pension. These averages have been calculated for the unfunded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

Table 1.B Average life expectancy at age 65 (years)

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

1.166 Figure 1.DD shows the average age for active and pensioner members as at 31 March 2016 and average future service (for active members), with the average calculated in the same way as the average of the life expectancy figures above. The sum of average age and average future service represent the average age of leaving service and not the average age of retirement since not all members retire immediately after leaving service.

Figure 1.DD Average age, for active and pensioner members (years)



1.167 Table 1.C below shows the average duration of the liabilities for active and pensioner members calculated as at 31 March 2016. Duration is the average number of years in the future at which cash flows are paid. This average is calculated by weighting the average times to payment by the discounted cashflows due at those future times. Payments will therefore take place both before and after the duration.

Table 1.C Average duration of liabilities (years)

	Active member	Pensioner
Duration	26	12

Affordability of public sector pensions

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

1.169 For example, when monitoring the fiscal implications of the schemes, the government considers the OBR's long-term projections of public sector pension scheme expenditure, as published in their Fiscal Risk and Sustainability Reports. These look at the future expected pension cash flows as a percentage of GDP. The latest Fiscal Risks and Sustainability Report was published in July 2023.

Actuarial Valuations of liabilities and provisions

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

What is an actuarial valuation?

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

Setting assumptions

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

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

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

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

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

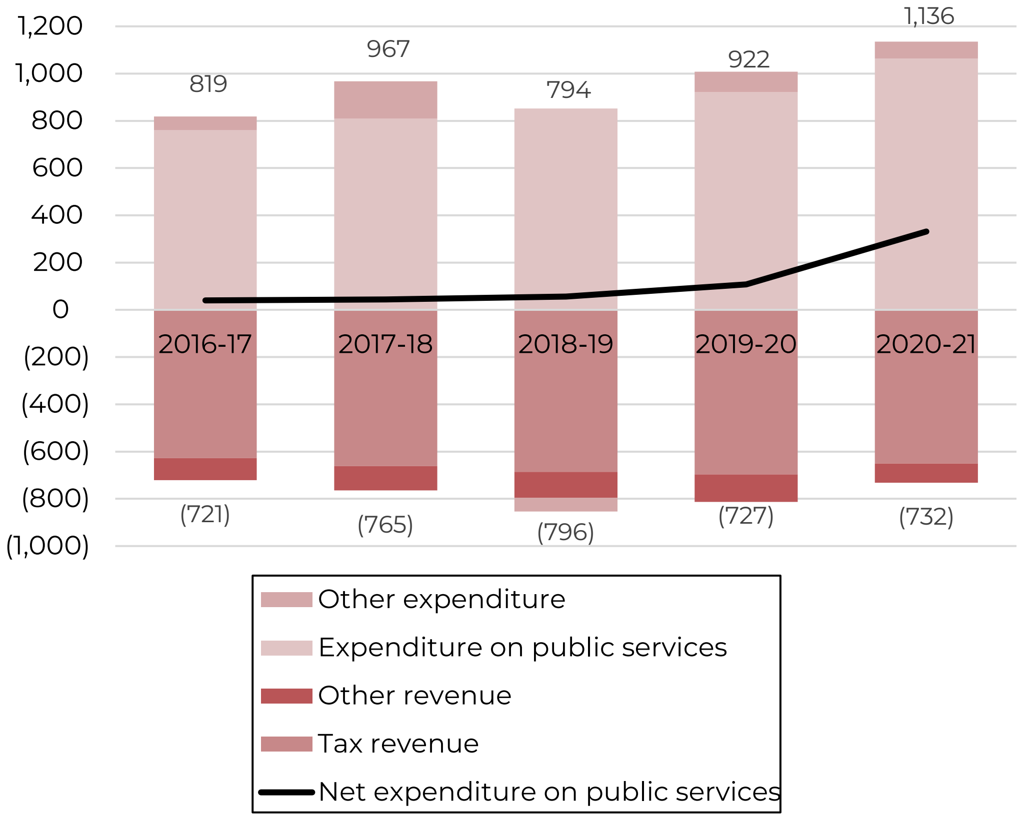
Data

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

Report on Income and Expenditure

1.170 Over the last 5 years the net expenditure on public services shown by the black line in Chart 1.EE, has increased by 731% (£291.6 billion). After being largely flat from 2015-16 to 2017-18, net expenditure increased across 2018-19 and 2019-20 and increased further in 2020-21. Across these years this was largely driven by an increase in expenditure on public services. In 2020-21 this increase in public services expenditure was in response to Covid-19.

Figure 1.EE 5 year trend on income and expenditure (£ billion)



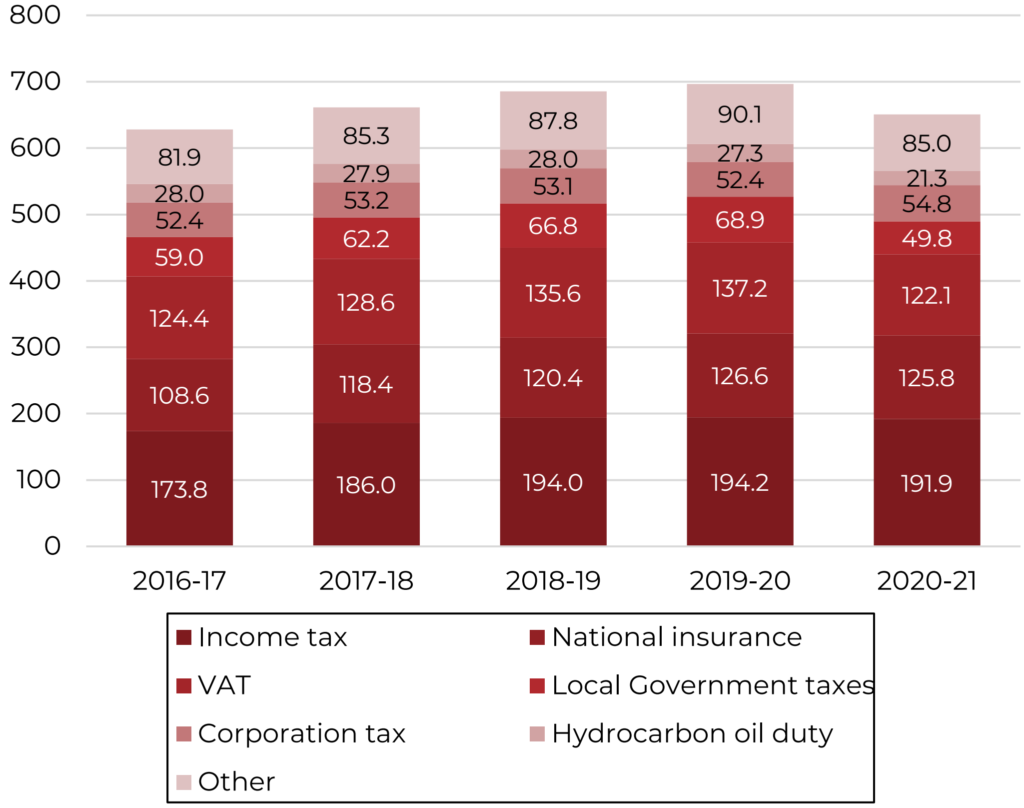
1.171 Conversely, total net expenditure for the year fluctuates radically from year to year. In previous years this has been driven by provision financing costs which include the impact of changes in discount rates used for provisions. These costs are an accounting measure and do not represent cash spent during the year.

Income

The government received £731.5 billion in income

1.172 Taxation revenue makes up 89.0% (£650.7 billion) of total income, 94.5% of which is collected by HMRC. Taxation revenue is driven by the overall level of activity in the economy and by the rates of taxation, allowances and reliefs.

Figure 1.FF Taxation revenue over time



1.173 Income tax, National Insurance Contributions and VAT make up the three largest elements of total tax revenue, but a wide range of other taxes and duties are also factored in. The following snapshot summarises the key elements of total tax revenue in 2020-21.

Snapshot of taxation revenue – total revenues by type of tax

Income Tax	National Insurance Contributions
• £192.0 billion of total revenue • 1.1% decrease from 2019-20 Income tax revenue consist of Pay As You Earn (PAYE) and Self Assessment (SA). There was an overall reduction. The amount of revenue raised for Income Tax is closely linked to the number of people in employment and wage levels. PAYE Income Tax increased, although unemployment rose, average wages also rose during the pandemic, with increased unemployment being disproportionately at the lower end of the income distribution in sectors such as hospitality which were impacted by Covid-19.	• £141.5 billion of total revenue • 0.3% decrease from 2019-20 Rate changes impact the amount of revenue collected. The reduction in national insurance contributions (NIC), is partly due to tax thresholds, the primary threshold for national insurance was increased. The increased unemployment was disproportionately at the lower end of the pay distribution, in sectors such as hospitality which were impacted by Covid-19, where NIC thresholds are higher and Income Tax rates are lower.
Value Added Tax	**Corporation Tax**
• £122.1 billion of total revenue • 11.1% decrease from 2019-20 Receipts tend to rise over time because of economic growth, inflation and consumer spending. As well as the impact of Covid-19 on the economy, there has been a decrease in household consumption. The largest decreases were in the accommodation and food service sector, manufacturing sector and the arts, entertainment and recreation sector.	• £53.7 billion of total revenue • 1.3% increase from 2019-20 Corporation Tax has increased from the previous year.
Hydrocarbon oils	**Stamp Taxes**
• £21.3 billion of total revenue • 22.3% decrease from 2019-20 The oil and gas industry has been impacted by the Covid-19 pandemic. The UK lockdowns reduced road traffic and fuel consumption.	• £12.6 billion of total revenue • 18.2% decrease from 2019-20 Stamp Tax has been impacted by the response to Covid-19. The first UK lockdown and the introduction of the residential SDLT holiday for properties up to £500,000 were the main factors driving the decrease.

Alcohols • £12.1 billion of total revenue • 1.7% increase from 2019-20 Alcohol revenue is likely to be affected by venue closures and the cancellation of sporting events in response to Covid-19; however, this was offset by increases in supermarket sales.	**Capital Gains Tax** • £12.0 billion of total revenue • 20.0% increase from 2019-20 Movement in tax receipts is difficult to determine due to the underlying volatility of asset sales. Timely information is not available due to the significant lag in declaration via Self Assessment. The deadline for filing and paying CGT arising on disposal of a UK property changed in April 2020, requiring taxpayers to submit returns within 30 days of disposal, this is a contributing factor in the increase.
Air Passenger Duty • £0.3 billion of total revenue • 91.0% decrease from 2019-20 Air Passenger Duty has been impacted by the Covid-19 pandemic. The UK lockdowns lead to a decrease in travel.	**Insurance Premium Tax** • £6.1 billion of total revenue • 6.2% decrease from 2019-20 The reduction in Insurance Premium Tax is due to the impact of Covid-19, which has led to premiums reducing, in particular home and car policies. There has also been a significant reduction in foreign travel and therefore the number of travel insurance policies has reduced.
Tobacco • £9.8 billion of total revenue • 1.0% increase from 2019-20 Tobacco duty remains largely unaffected by economic downturns. With effect from 11 March 2020 all tobacco duties were increased by 2% above RPI and a further 4% increase was applied to hand-rolling tobacco products.	A number of other taxes, including Inheritance Tax, Bank Levy and customs duties, account for the remaining revenue.

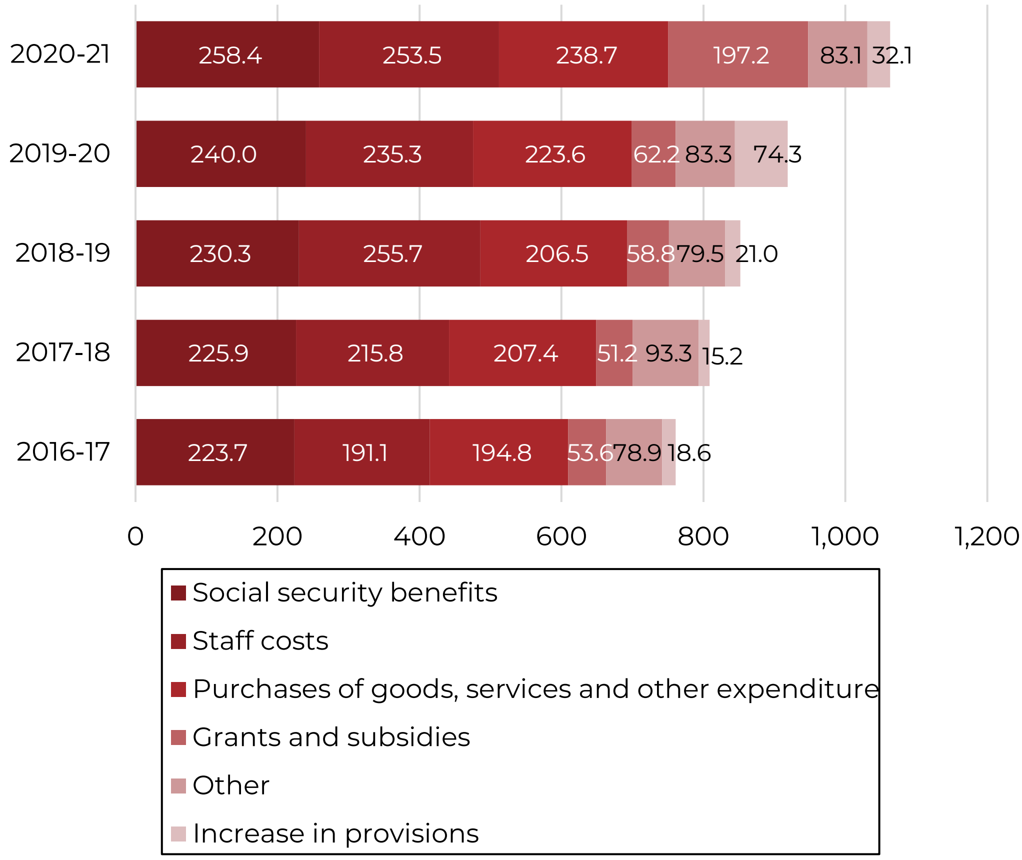
Source: HMRC Annual Report and Accounts 2020-21

Expenditure

Total expenditure on public services is £1,063.0 billion

1.174 The government spent £1,063.0 billion on public services. The most significant elements were **social security benefits** of £258.4 billion (2019-20: £240.0 billion), **staff costs** of £253.5 billion (2019-20: £235.3 billion) and **purchase of goods and services** of £238.7 billion (2019-20: £223.6 billion), each of which is explored in more detail in the following sections.

Figure 1.GG Expenditure on public services (£ billion)



1.175 Overall, total expenditure on public services has increased by 39.7% over the last 5 years. The largest change for 2020-21 was an increase in grants and subsidies of £135.0 billion to £197.2 billion (2019-20: £62.2 billion). This increase was largely driven by the issuing of a range of additional grants in response to the Covid-19 pandemic. Further details can be found in Note 9.

1.176 As well as WGA, the Treasury publishes the Public Expenditure Statistical Analysis (PESA)[14] and the Country and Regional Analysis (CRA).[15]

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

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

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

Table 1.D Public Expenditure breakdown - Functional 2015-16 to 2020-21

Function	2020-21 £bn	% of total	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn	2015-16 £bn
Social protection	297.2	30%	275.8	274.8	268.7	265.4	264.9
Health	219.4	22%	164.1	152.9	147.3	142.6	138.5
Education	96.1	10%	90.6	88.1	86.1	84.9	84.9
Defence	44.6	4%	42.2	40.2	38.7	37.1	36.6
Public order and safety	38.6	4%	34.5	32.4	31.5	30.1	30.2
Transport	45.1	5%	34.6	32.7	30.3	28.8	27.9
Other economic affairs	143.8	14%	32.1	28.0	22.9	20.4	19.1
Environment protection	12.6	1%	11.8	11.0	11.8	11.0	11.6
Housing and community amenities	13.9	1%	14.2	12.0	11.4	10.3	9.8
Recreation, culture and religion	12.3	1%	11.9	11.4	11.5	11.6	11.4
General public services	28.8	3%	26.3	24.7	22.7	23.4	21.5
Debt interest	41.5	4%	54.7	55.1	60.5	55.2	53.8
EU transactions	5.8	1%	5.8	7.9	5.4	4.7	7.7
Public services expenditure per PESA	**999.7**	**100%**	**798.6**	**771.2**	**748.8**	**725.5**	**717.9**
Add: Depreciation and impairment	61.9		51.5	56.5	48.6	42.7	45.4
Add: Increase in provisions	32.1		77.1	15.2	18.6	9.2	26.0
Accounting adjustments	(30.7)		(5.7)	(34.1)	(53.4)	(35.2)	(38.0)
WGA expenditure on public services	**1,063.0**		921.5	808.8	762.6	742.2	751.3

Source: Public Expenditure Statistical Analysis 2021 table 4.2 as at March 2021[16]

16 Table may not agree with PESA / CRA due to rounding

Table 1.E Chart 1.PP: Public Services expenditure breakdown – Country and Regional 2015-16 to 2020-21

Region	2020-21 £bn	% of total	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn	2015-16 £bn
North East	36.2	3%	27.5	26.6	25.7	25.6	25.4
North West	100.6	10%	75.2	72.3	80.0	68.3	67.6
Yorkshire and the Humber	69.8	7%	51.7	50.0	48.5	48.1	47.7
East Midlands	58.9	6%	43.1	41.3	39.8	39.1	38.6
West Midland	76.6	7%	57.0	54.8	52.3	51.5	50.2
East	78.3	8%	56.4	54.0	51.5	49.7	49.5
London	139.5	14%	97.8	93.0	91.0	88.6	87.7
South East	113.4	11%	81.7	79.0	75.3	73.5	71.1
South West	71.3	7%	52.1	49.8	47.9	47.0	45.9
Scotland	81.1	8%	63.3	60.8	58.6	57.4	56.2
Wales	45.1	4%	34.5	33.4	32.4	31.4	30.9
Northern Ireland	29.1	3%	22.7	21.7	20.8	20.5	20.2
Outside UK	26.1	2%	28.3	30.0	26.4	25.5	25.8
Non-identifiable expenditure	100.3	10%	105.4	104.3	107.7	101.3	101.2
Public sector expenditure on services	**1026.3**	**100%**	**796.7**	**771.0**	**757.9**	**727.5**	**718.0**
Add: Depreciation and impairment	61.9		51.5	56.5	48.6	42.7	45.4
Add: Increase in provisions	32.1		77.1	15.2	18.6	9.2	26.0
Accounting adjustments	(157.6)		(3.8)	(33.9)	(62.5)	(37.2)	(38.1)
WGA expenditure on public services	**1,063.0**		**921.5**	**808.8**	**762.6**	**742.2**	**751.3**

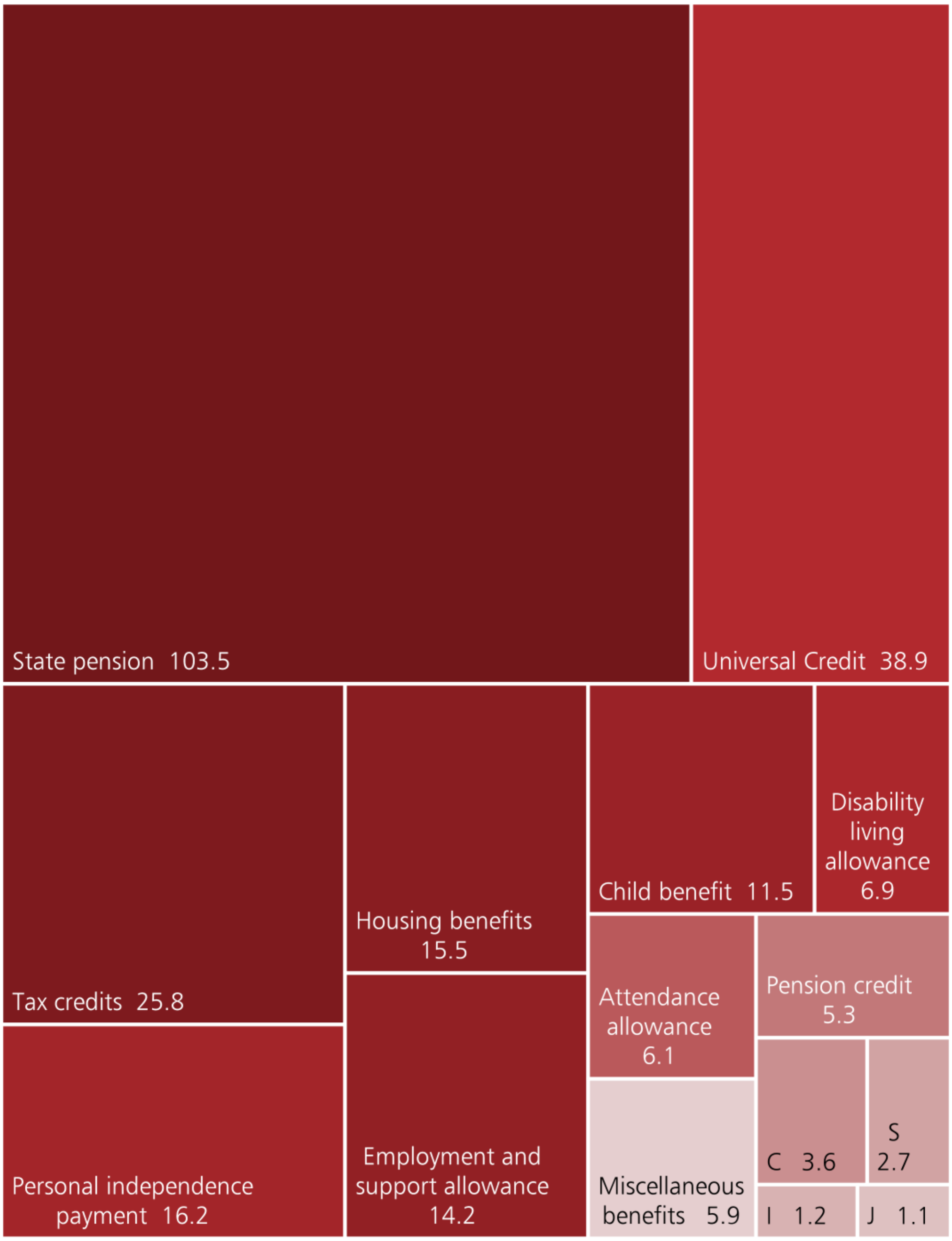
Source: Country and Regional Analysis 2021 table A.1a as at March 2021[17]

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

Social security benefits totalled £258.4 billion

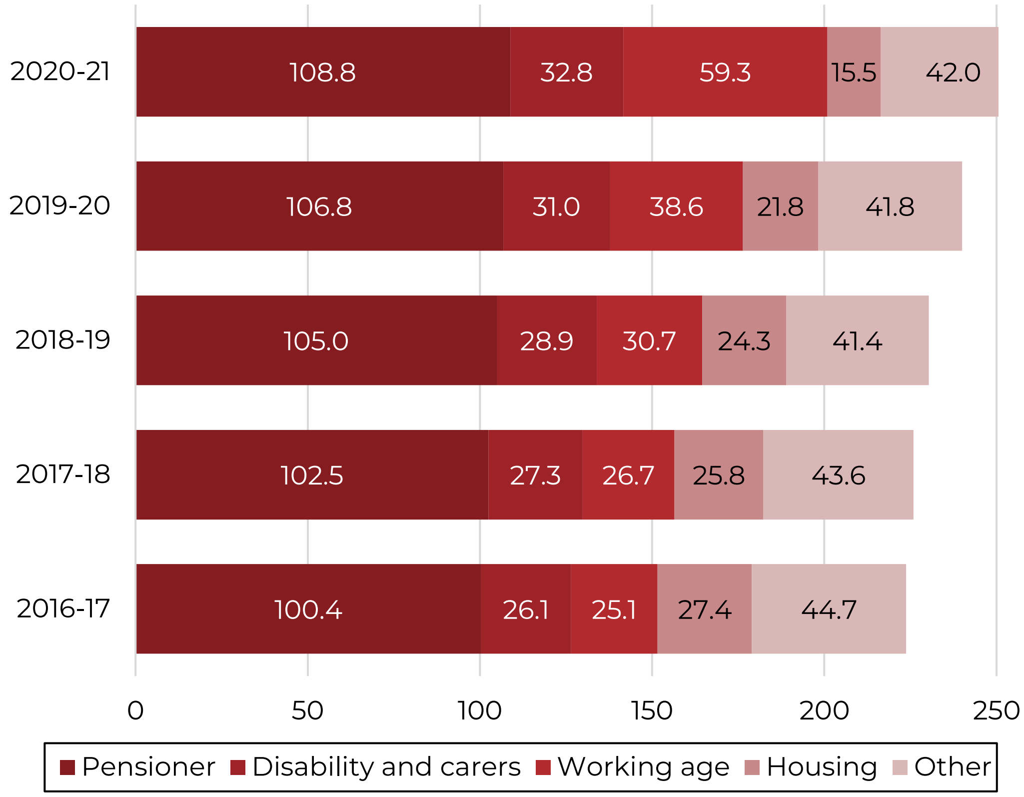
1.178 Government spending on social security benefits increased by £18.4 billion (8%) in 2020-21 compared with 2019-20. It has increased by £35.9billion over the last five years. The largest element of social security benefits is the state pension at £103.5 billion. The most significant increase has been to Universal Credit, which increased by 111% (£20.5 billion) to £38.9 billion between 2019-20 and 2020-21. This was primarily because of increased caseloads due to the Covid-19 pandemic, and the migration from other working age benefits.

Figure 1.HH Social security benefits over time (£ billion)



C:	Carer's allowance
S:	Statutory Sick Pay and Maternity Pay
I:	Income Support
J:	Jobseeker's Allowance

Figure 1.II Social security benefits over time (£ billion)



Staff costs totalled £253.5 billion

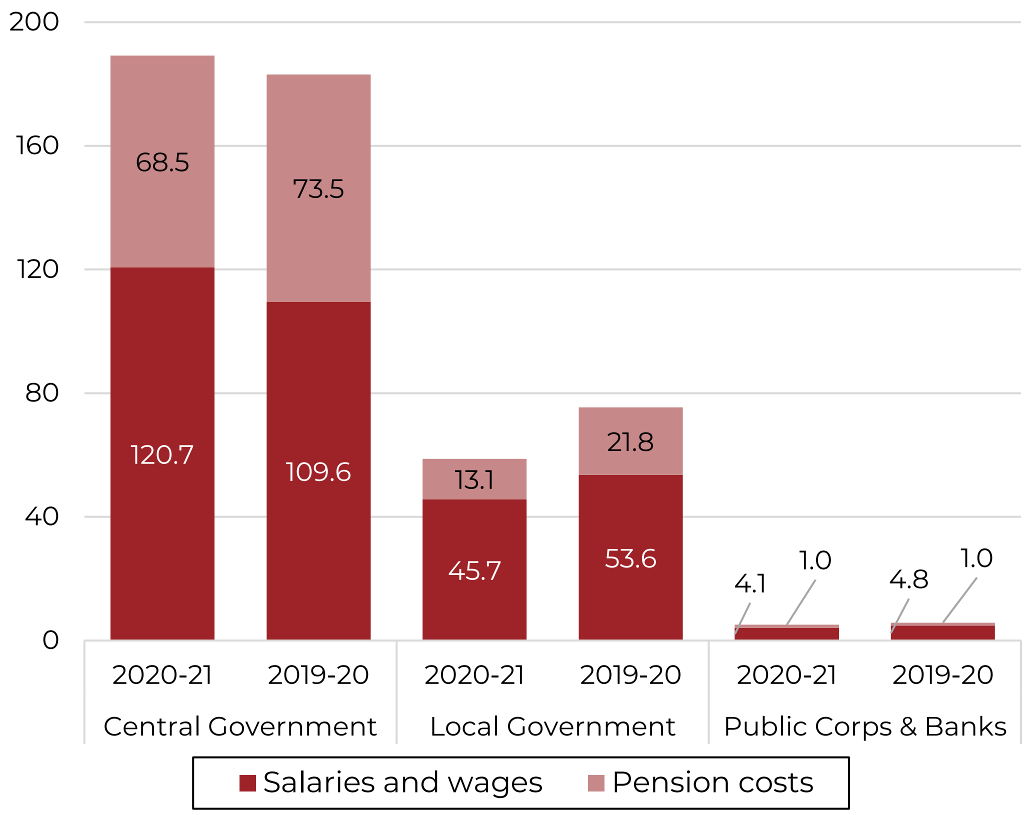
1.179 Staff costs comprise expenditure on salaries and wages, and expenditure on pension costs.

1.180 In 2020-21, the cost of salaries and wages recognised in WGA was £171.0 billion (2019-20: £168.2 billion), an increase of 1.7% on the prior year which took place alongside a 3.9% decrease in staff numbers. This compares to 5.5% increase in staff costs in 2019-20, which saw a 1.8% increase in staff numbers. The staff cost movement in 2020-21 offsets a decrease of £8.4 billion due to bodies which submitted data for WGA consolidation in 2019-20 but not 2020-21 (see from paragraph 1.6 for further details) with an increase of £11.6 billion from bodies which submitted in both years. This increase was largely due to a £6.3 billion increase in salaries and wages at the Department for Health and Social Care, where staff numbers increased to meet the challenge of Covid-19. Staff numbers are also affected in a similar way by missing data from bodies which didn't submit in 2020-21 being offset by increases for those which submitted in both years.

1.181 Pension costs increased by 23.0% to £82.5 billion in 2020-21 (2019-20: £67.1 billion), largely due to an increase of £11.9 billion in current service costs net of employee contributions.

1.182 Further details on staff costs and numbers are included in the staff cost Note 7. Further information on public sector pension costs, and the drivers of changes to these costs, are included in the pension liabilities section of this chapter (from paragraph 1.158) and in Note 24 to the accounts.

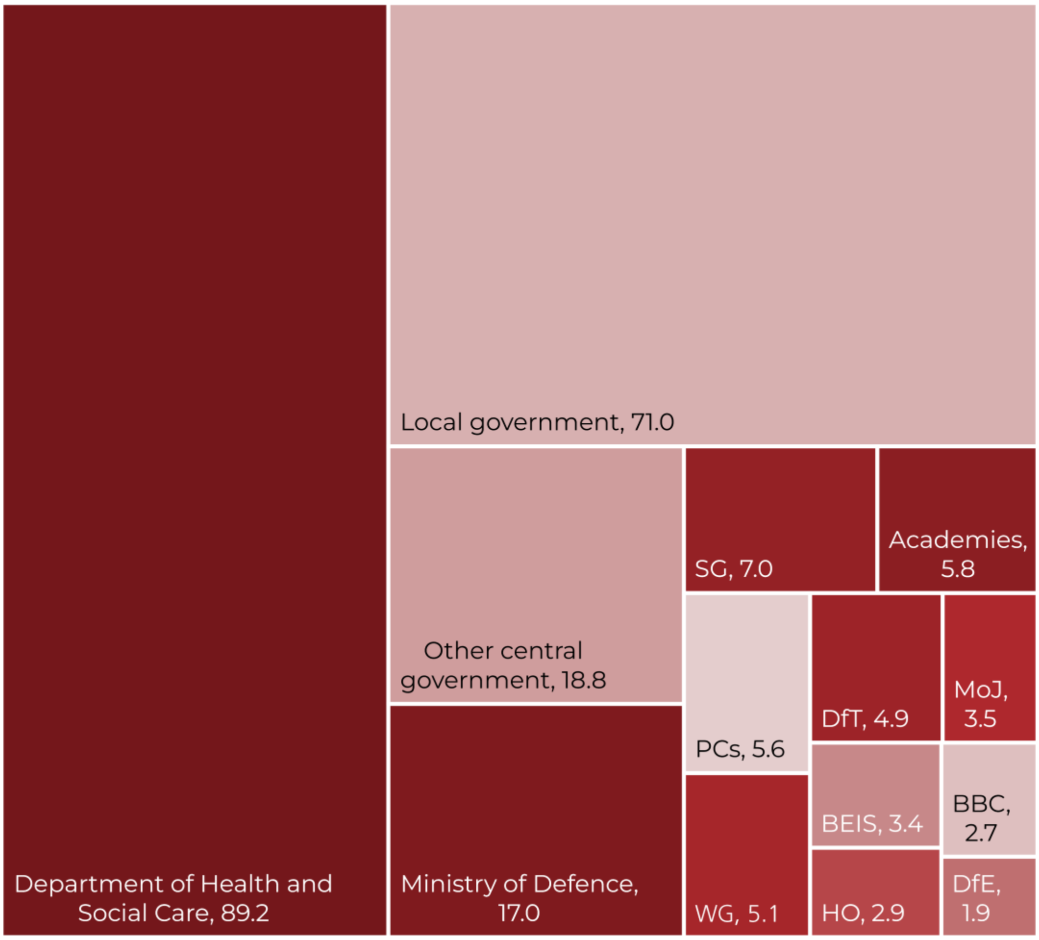
Figure 1.JJ Staff costs by sector (£ billion)



Purchase of goods and services totalled £238.7 billion

1.183 Purchase of goods, services and other expenditure increased 6.8% or £15.1 billion compared to 2019-20. The balance can be analysed by identifying which entities make up the largest balances.

Figure 1.KK Purchase of goods and services (£ billion)



1.184 The Department of Health and Social Care (DHSC) reported the largest expenditure of purchase of goods and services of £89.2 billion (2019-20: £66.1 billion). The Secretary of State for Health and Social Care and other departmental ministers are accountable to Parliament for the provision of the comprehensive health and social care services in England. To enable the system to work flexibly, the critical day-to-day operational decisions are made by the professionals working in provider organisations, supported by the strategic and regulatory functions carried out by DHSC's arms-length bodies.

1.185 The Ministry of Defence has the second largest Departmental spend for purchase of goods and services at £17.0 billion (2019-20: £15.9 billion). The Ministry of Defence plays a pivotal role in providing defence and security for people of the United Kingdom across the globe. Defence's contribution to the Covid-19 response represented the most significant domestic resilience operation in peacetime. It was a National and Whole Force response, uniting regulars and reservists, soldiers and academics, sailors and civil servants. The Integrated Review published in March 2021 is the most comprehensive articulation of a defence, foreign and national security approach published by a British Government in decades and paves the way for a modernisation of defence.

1.186 Other large departmental spend includes Scottish Government (£7.0 billion) and academies (£5.8 billion). In all cases expenditure excludes transfers to other parts of the public sector (for example from the Department for Education to academies or local authorities).

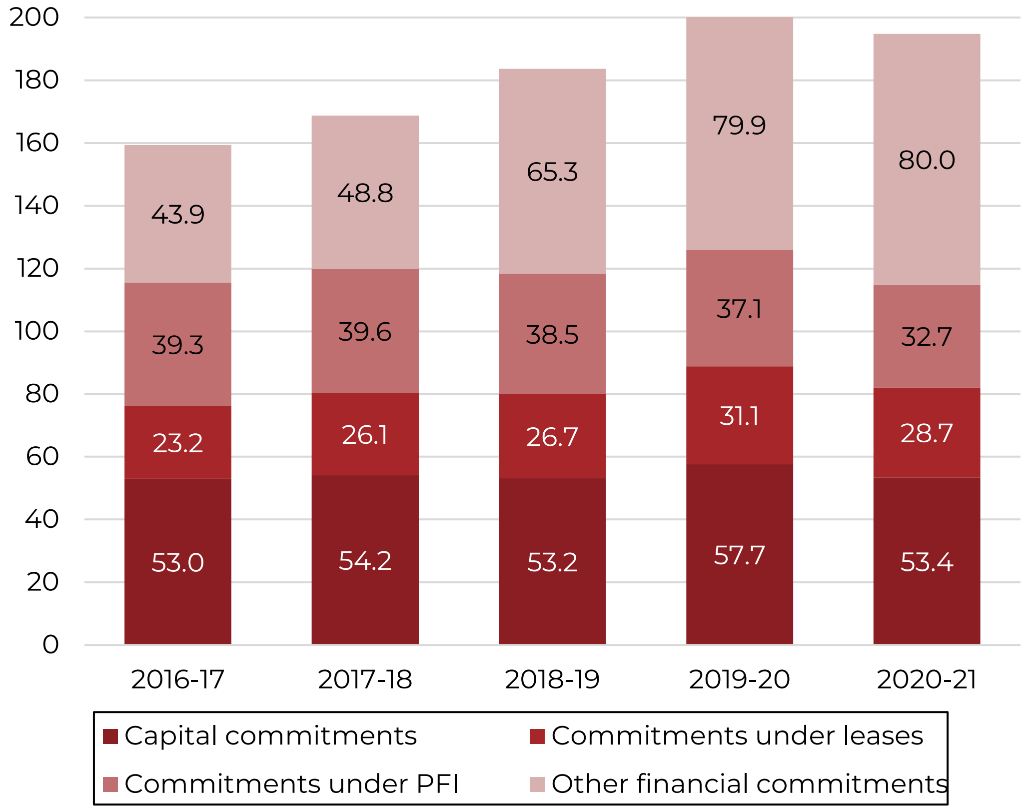
1.187 The wide range of activities carried out by entities in the public sector, differences in what is material in each entity and differences in reporting conventions means that it is hard to analyse expenditure on goods and services by category within WGA. For example, central government departments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

Commitments and contingent liabilities

Commitments

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

Figure 1.LL Commitments (£ billion)

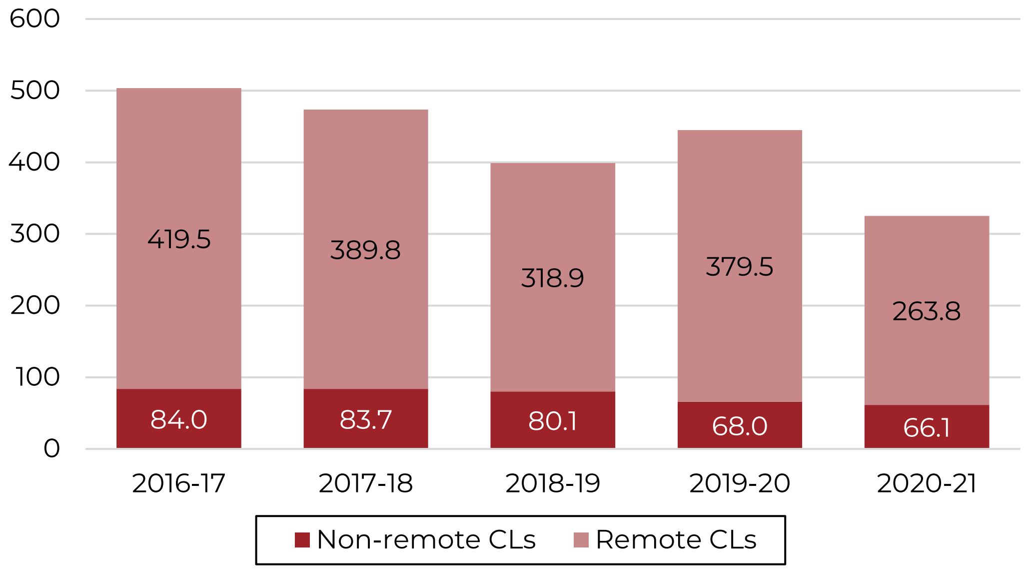


1.189 Commitments have increased by 22.2% over the 5 years to 2020-21, largely driven by an increase in other financial commitments which have nearly doubled over this period. However other financial commitments hardly moved from 2019-20 to 2020-21, following a restatement of the 2019-20 figure from £70.9 billion to 79.9 billion. Further details can be found in Note 28.

Contingent liabilities

1.190 The government has a total of £329.9 billion disclosed as contingent liabilities, a decrease of £117.6 billion from 2019-20 (restated). These include £66.1 billion (2019-20: £68.0 billion restated) of contingent liabilities that are reported under the accounting standards, and a further £263.8 billion (2019-20: £379.5 billion) of remote contingent liabilities. As the chance of these liabilities becoming due is considered remote, the accounting standards do not require their disclosure. However, the Treasury requires government departments to disclose remote contingent liabilities through its government reporting framework.

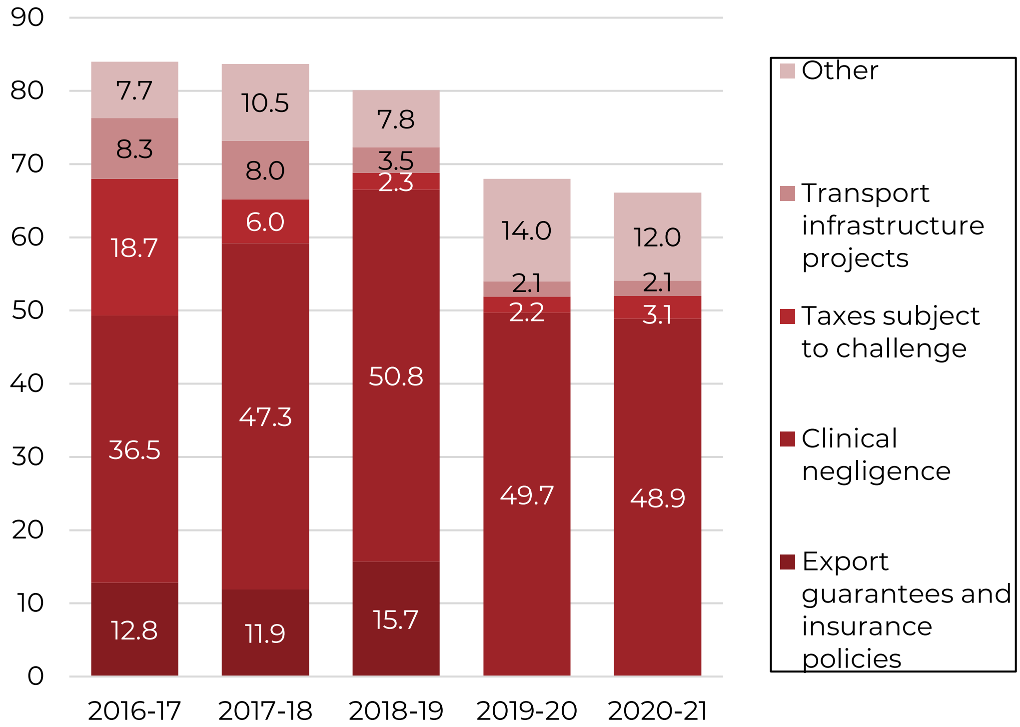
Figure 1.MM Quantifiable contingent liabilities: non-remote and remote (£ billion)



1.191 Remote contingent liabilities totalled £263.8 billion (2019-20: £379.5 billion). The largest component of this is the remote contingent liability held by the Pension Protection Fund (PPF) and is valued at £140.0 billion (2019-20: £250.0 billion). This is the aggregate value of all potential claims. Further details on the decrease of this remote contingent liability can be found in Note 30.

1.192 Non-remote contingent liabilities totalled £66.1 billion in 2020-21. The contingent liability for clinical negligence has increased over the last five years and now makes up 74.0% of the total, as shown below in Figure 1.NN.

Figure 1.NN Non-remote contingent liabilities (£ billion)



1.193 The largest quantifiable non-remote contingent liability is clinical negligence, £48.9 billion (2019-20: £49.7 billion). The Department for Health and Social Care is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is a large degree of uncertainty as to the Department's (and other health bodies') liability. The contingent liability is an estimate of this possible expenditure.

Other matters

Government emissions

1.194 The Greening Government Commitments[18] (GGCs) set out the actions UK central government departments and their agencies will take to reduce the negative effects that government's estates and operations have on the environment. Individual departments are required to publish their own sustainability reports either as part of their annual report, or as separate reports, which show progress against the following commitments:

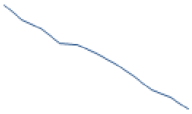
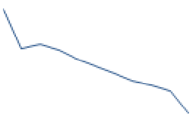
- Reduce emissions: reduce greenhouse gas emissions by at least 43% from a 2010 baseline and reduce the number of domestic business flights by at least 30% from the 2010 baseline.

[18] https://www.gov.uk/government/collections/greening-government-commitments

- Improve waste management: reduce the amount of waste going to landfill to less than 10% and reduce government's paper use by at least 50% from a 2010 baseline
- Reduce water use by continuing to improve on the reductions each department made by 2015
- Buying 'greener' products and services: continuing to buy more sustainable and efficient products and services with the aim of achieving the best long-term, overall value for money for society.
- Being open and transparent by reporting publicly on the steps departments are taking to address: climate change adaptation; biodiversity and the natural environment; procurement of food and catering services; sustainable construction; and any other issues that departments consider to be most significant to reducing the environmental impact of their activities.

1.195 The GGC Annual Report brings these together to show progress by government departments against the GGCs. The GGC 2020-21[19] report summarises the progress made during that year against the 2016 to 2020 GGCs framework.

Table 1.F GGC progress against targets

Greening Government Commitment	2020-21 Target	Progress from 2001-10 to 2020-21	2020-21 Performance	Result
Greenhouse gases	Reduce greenhouse gas emissions by at least 43%		57% reduction	Exceeded target
Domestic flights	Reduce the number of domestic flights by at least 30%		96% reduction	Exceeded target
Waste to landfill	Reduce the amount of waste going to landfill to less than 10%		8% of waste to landfill	Exceeded target
Paper consumption	Reduce the government's paper use by at least 50%		80% reduction	Exceeded target
Water	Continue to reduce water consumption		14% reduction	Target met

[19] Greening Government Commitments annual report April 2020 to March 2021 (publishing.service.gov.uk)

1.196 Throughout the 2020-21 financial year, office use and ways of working were impacted as government responded to the Covid-19 pandemic by imposing restrictions and easing them when possible. As a result, data for the majority of the GGC targets reflects the impact of those restrictions as well as the work undertaken by departments to reduce emissions, waste, flights, water use and paper consumption.

1.197 The 2016 to 2020 GGC framework was due to expire in April 2020. Due to the unprecedented demand placed on facilities teams during this period, including the need to re-organise and re-purpose office space, the commitments were rolled over for an additional year. Non-GGCs sustainability reporting was also relaxed, such as in the sustainability reporting guidance for annual reports and accounts.

1.198 In October 2021, the UK government introduced the latest GGCs framework covering 2021 to 2025[20]. The targets in this framework are set against a baseline of 2017-18, allowing departments to measure their reductions against recent pre-Covid levels. The forthcoming 2021-22 GGCs annual report will be the first report against this framework.

1.199 As a standard setter, HM Treasury has announced plans to implement the Task Force on Climate-related Financial Disclosure (TCFD) recommendations in central government annual reports and accounts, with a three-year phased implementation extending to 2025-26. This will align central government climate-related financial disclosure with best practice in the private sector, improve climate-related risk reporting, and embed climate change into organisations' decision-making processes.

1.200 HM Treasury and the Financial Reporting Advisory Board (FRAB) are also monitoring other sustainability reporting developments in the private sector and by international standard setters to inform the public sector sustainability reporting strategy.

Net Zero

1.201 The UK was the first major economy to embrace a legal obligation to achieve net zero carbon emissions by 2050, and in March 2023 published Powering Up Britain[21]. This publication brings together the Energy Security Plan and Net Zero Growth Plan to set out how the government will enhance the UK's energy security, take advantage of the economic opportunities of the energy transition and deliver on its net zero commitments. These plans will be delivered across a number of areas including:

- Delivering Great British Nuclear

[20] Greening Government Commitments 2021 to 2025 - GOV.UK (www.gov.uk)

[21] Powering up Britain - GOV.UK (www.gov.uk)

- Making a world-leading commitment to Carbon Capture, Usage and Storage
- Delivering a Hydrogen economy
- Accelerating deployment of renewables
- Reducing reliance on fossil fuels to heat buildings
- Reducing household bills by increasing energy efficiency
- Decarbonising transport
- Speeding up planning and networks
- Mobilising private investment
- Building on the UK's COP26 Presidency

Spending on Net Zero

1.202 At Spending Review 2021 (SR21) the UK government committed a total of £30 billion of domestic investment for the green industrial revolution. Net Zero capital funding that was agreed as a part of SR21 was detailed in the Net Zero Strategy. Since then, the government has committed £6 billion of new government funding for energy efficiency which will be made available from 2025 to 2028, in addition to £6.6 billion allocated this Parliament (to 2025). To lead this national effort, a new Energy Efficiency Taskforce was also established. This provides long-term funding certainty, supporting the growth of the supply chain and ensuring we can scale up our delivery over time. This is in addition to the £20 billion announced at Spring Budget 2023 to develop the first two Carbon Capture, use and Storage (CCUS) clusters in the North West and North East of England and we have committed to develop a further two clusters through Track 2 of the CCUS programme.

1.203 The UK government uses a range of other financing mechanisms to provide long-term certainty for investors, including the Contracts for Difference scheme for low-carbon electricity generation, through which generators have received almost £6 billion in price support to date. This complements the capital available through the UK's public financing institutes towards net zero – including across the UK Infrastructure Bank, British Business Bank, UK Research and Innovation and UK Export Finance (UKEF). The Chancellor announced an increase in UKEF's maximum exposure limit by £10 billion on 30 March 2023 to provide additional capacity for UKEF to support exporters, including in green industries, to win contracts, fulfil orders and get paid. Alongside the publication of the Green Finance Strategy update[22] which strengthened the UK's leading position in the global green finance market, providing the financing needed to deliver our energy security, net zero and environmental ambitions.

---

[22] Mobilising Green Investment - 2023 Green Finance Strategy (publishing.service.gov.uk)

Cross-government fraud landscape

1.204 The UK government aims to be the most transparent in the world in how it deals with fraud against the public sector. As part of this commitment, it has published the Cross-Government Fraud Landscape Report[23]. The levels of fraud and error in the tax and welfare systems are already published in the accounts of HM Revenue and Customs and the Department for Work and Pensions respectively. The Cross-Government Fraud Landscape Report completes the picture by detailing the levels of fraud and associated error that other central government departments and public bodies are reporting, and have dealt with, in the associated year.

1.205 The challenge for the government in acting on fraud against the public sector remains significant. The overall estimate (including tax and welfare) is that every year at least £33.2 billion of taxpayers' money is subject to error and fraud (both detected and undetected). The more this can be acted on, the more the costs of public services can be reduced. This will also reduce what is often criminal activity undertaken to the detriment of honest taxpayers.

Fraud and error estimates

1.206 When measuring the extent of fraud in the system, the government considers overall fraud and error loss. The reason for this is that the difference between fraud and error is intent and when undertaking large estimations, the certainty around the intent behind individual interactions is low - and as such it is more accurate to state the loss is fraud and/or error.

1.207 Total fraud and error loss across the public sector is estimated to be between £33.2 billion and £58.8 billion per year (these figures include the tax and welfare systems but not Covid-19 specific schemes). This compares to £10.8 billion of fraud and error loss detected in 2020. These estimates indicate there is a significant gap between the total level of fraud and error, and the proportion that is detected.

Impact of Covid-19

1.208 Following the outbreak of Covid-19, the UK government responded to the urgent needs of citizens, creating multiple schemes and grants to support people and businesses.

1.209 The unprecedented shift to remote working due to the pandemic presented challenges in the traditional counter fraud response and in parallel prompted fraudsters to use virtual tactics to target schemes and individuals. Due to the nature of the pandemic, emergency funding needed to be issued to citizens at pace, this coupled with the increase in procuring equipment to aid in the pandemic response created opportunities for fraudsters and saw the risk of fraud against the public sector increase.

---

[23] Cross-Government Fraud Landscape Annual Report 2022 - GOV.UK (www.gov.uk)

1.210 Fraudsters were quick to adapt their practices and take advantage of the emergency situation unfolding across the world, attacking stimulus schemes set up to help the most vulnerable within our society. In order to respond to both the Covid-19 and business as usual fraud threats, many organisations had to utilise their resources within a risk-based approach, prioritising as required.

1.211 The UK government is committed to do more to fight fraud perpetrated against the public sector. Throughout Covid-19 it has utilised counter fraud experts from around government, the private sector and international partners to identify ways in which it can improve its approach to counter fraud. As experts across the Government Counter Fraud Function look to create the next Cross-Government Counter Fraud Strategy, key lessons learnt through the pandemic will be at the forefront of discussion.

1.212 These lessons will be embedded further in the work of the Public Sector Fraud Authority which was announced within Spring Budget 2022 and published its first Annual Report[24] in March 2023.

Covid-19 response – welfare system (Department for Work and Pensions)

1.213 A response was made to the challenge of the pandemic by redeploying thousands of staff from their normal roles to help process the huge increase in new claims. This surge in claims and the constraints of public health considerations meant making policy and operational changes to working practices. For example, to comply with public health guidance, face to face checks were no longer feasible. Equally, some difficult decisions had to be made so that people could be paid who needed help during this difficult time.

1.214 In practice, this meant easing some of the more stringent checks and operating a 'Trust and Protect' regime. This meant an acceptance of the information claimants gave over the phone, ahead of verifying evidence later via case reviews. Each case was logged that went through the verification easements so that the cases could be revisited at a later date. These changes were collectively known as easements.

1.215 Many of the easements were rescinded or adjusted at the earliest opportunity; others remain in place. New steps were also brought in, like the Enhanced Checking Service, a team of trained investigators who review claims and contact claimants by telephone in order to obtain further information or evidence where there is suspected fraud.

1.216 In addition, the DWP ensured that the Integrated Risk and Intelligence Service (IRIS) had an increased role in co-ordinating the monitoring of, and response to, fraud risks from individuals and organised crime groups throughout this difficult period. The action taken in terms of addressing easements, introducing mitigations, and actively intervening in cases, made a significant difference to the

[24] Cross-Government Fraud Landscape Annual Report 2022 - GOV.UK (www.gov.uk)

potential losses the government might otherwise have incurred. However, it was understood that that there was a high risk of fraud and error increasing because of the emergency responses to the pandemic.

1.217 The impact of Covid-19 on Universal Credit payments resulted in an overall increase in overpayments of Universal Credit benefit expenditure from 9.4% in 2019-20 to 14.5% in 2020-21.

1.218 For further details of the impact of fraud and error in the welfare system, see the Department for Work and Pensions annual report and accounts 2020-21[25].

Covid-19 response – tax system (HM Revenue and Customs)

1.219 Covid-19 has had an impact on the level of error and fraud in 2020-21. HMRC introduced an easement for some claims with childcare entitlement during the pandemic which ended on 7 September 2020. This was in recognition of initial uncertainties about the lockdowns necessitated by the pandemic, and what the impacts would be on childcare provision. It was intended to avoid disadvantaging customers by ensuring that the awards of those still incurring childcare costs but not receiving the services (due to the enforced closure of providers) were not adjusted downwards. HMRC estimates that error and fraud increased by around £40 million as a result of claimants not informing HMRC where they had ceased paying their childcare provider in full or in part. HMRC also introduced an easement to ensure that those temporarily working reduced hours or furloughed due to the pandemic were treated as working their normal pre-pandemic hours. HMRC estimates this led to a reduction in error and fraud of £46 million in 2020-21.

1.220 Covid-19 has affected the administration of tax credits, contributing to the increase in error and fraud in 2019-20 and 2020-21. As a result of HMRC redeploying staff to frontline customer service work and Covid-19 support schemes, some compliance activity on high-risk claims was not undertaken during 2020-21. The redeployment contributed to a greater reduction in compliance resource than would have occurred naturally from the caseload reduction; down from 1,000 full-time equivalents in 2019-20 to 488 in 2020-21.

1.221 Compliance activity includes official checks to ensure declarations are accurate and post-payment investigations to ensure awards are correct. Fewer checks and investigations lead to more erroneous and fraudulent payments going undetected. HMRC's revised estimate of the impact of the reduction in compliance activity is an increase in error and fraud in 2019-20 of £90 million. Furthermore, during the 2020 renewals window, all claims were auto renewed except for those that had previously been allocated to the High-Risk Renewals compliance campaign. This was to enable further resource redeployment and allow claimants to receive the £20 per week Covid-19-related uprating of Working Tax Credit within six weeks of 6 April

[25] DWP annual report and accounts 2020 to 2021 - GOV.UK (www.gov.uk)

2020. It meant that fewer claimants than usual were required to reply to HMRC to confirm the accuracy of the details held about them, for example annual income and working hours. HMRC estimates that this contributed to around £54 million of error and fraud in 2019-20.

1.222 For further details of the impact of fraud and error in the tax system, see HM Revenue and Customs annual report and accounts 2020-21[26].

Measures to mitigate risks of fraud and error

1.223 The pandemic response highlighted the importance of a risk-based approach to counter fraud activity and the necessity of increasing the understanding of fraud risk to government schemes and where the potential for widespread fraud could present itself. The Counter Fraud Centre of Expertise worked with departments to establish a Global Fraud Risk Assessment (GFRA) - highlighting the highest risk Covid-19 stimulus schemes and the need for in-depth fraud risk assessments in these areas.

1.224 Government departments also undertook Post Event Assurance (PEA) on their stimulus schemes. The aim of PEA was to understand the risks within each of the schemes as well as to support and review Fraud Measurement Activity to establish the levels of fraud likely to have occurred. Early information published by departments and public bodies shows that the level of fraud and error in pandemic related spending in 2020-21 is likely to exceed £10 billion. Following a recommendation from the Public Accounts Committee, HM Treasury created a requirement for departments to make an evidence based estimate of the extent of the level of fraud and error in the Covid-19 support schemes that they administer in their 2021-22 annual reports and accounts. This brings them in line with best practice from HMRC and DWP.

Intelligence and understanding the threat

1.225 Alongside the GFRA and PEA activity, the pandemic highlighted the benefits of sharing information across government. Government established a central intelligence team to gather information provided by the public and other sources and disseminate it to law enforcement agencies and other government departments. In conjunction with Crimestoppers, government set up the Crimestoppers Covid-19 intelligence hotline, giving the public a route to anonymously provide information about suspected public sector fraud.

1.226 The intelligence team also created several public-facing documents to highlight fraud risks that were being presented to the public, such as Covid-19 pass and vaccine fraud.

1.227 Colleagues across government came together to share data in order to detect and prevent fraud within Covid-19 stimulus spending.

---

[26] HMRC annual report and accounts: 2020 to 2021 - GOV.UK (www.gov.uk)

The Counter Fraud Centre of Expertise within the Cabinet Office worked with various stakeholders to identify how data could be best utilised, including collaborating with the Department for Business, Energy and Industrial Strategy (BEIS) and the British Business Bank to establish how data could be used to create upfront fraud controls and assist in proactive detection of loans that had been obtained fraudulently.

Events since 31 March 2021

1.228 There have been a number of events that could have a bearing on the Statement of Financial Position as at 31 March 2021. These events are shown in Note 32 to the accounts.

Conrad Smewing

Accounting Officer

14 July 2023

Chapter 2

Statement of Accounting Officer's responsibilities

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

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

2.2 The account is prepared on an accruals basis and in accordance with the GRAA and the 2020-21 Government Financial Reporting Manual (FReM) which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts must give a true and fair view of the whole of government's finances.

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

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

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

- drawing up WGA in accordance with the GRAA
- ensuring that WGA complies with the FReM and generally accepted accounting practice

- agreeing the process of producing WGA and for ensuring that relevant data are collected and accurately and appropriately processed
- ensuring that there is an appropriate control environment for the production of WGA

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

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

Chapter 3
Governance Statement

Scope of Accounting Officer’s responsibility

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

3.2 The previous Accounting Officer, Catherine Little, was Accounting Officer for the Whole of Government Accounts up to 16 April 2023. I have been Accounting Officer for the Whole of Government Accounts since 17 April 2023. Although I was not Accounting Officer for the Whole of Government Accounts for the period that this report covers, Catherine Little has provided me with written assurance that there were adequate governance arrangements in place up to 16 April 2023 and that the system of internal control was effective throughout.

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

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

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

3.6 In producing WGA, I must rely on the Accounting Officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process. The major risks identified from the underlying accounts are set out in Paragraphs 3.22 to 3.23. The key risks in the preparation of WGA, and any corresponding changes for 2020-21 are summarised below:

3.6.1 Failure to provide data through submission of WGA returns

A significant number of entities failed to submit consolidation data for WGA by the date on which consolidation work began, and submissions for 2020-21 were closed in order to allow submission of 2021-22 data. This is despite submission deadlines being extended from 30 August to 30 November 2022 to facilitate the submission of further returns. Some large entities did not provide their submissions until mid-December, and others did not provide a return at all. This is serious issue for WGA 2020-21 that has led to a new qualification this year. HM Treasury has worked extensively with components to prioritise timely submission of data returns for 2020-21 and future years and will continue to look at how we can try to minimise the impact on WGA. but there are systemic issues in local government audit that mean that this issue will continue in future years. For further details on this missing data see Note 1.3 and the Performance Report (from paragraph 1.6)

3.6.2 Quality of WGA impacted by qualifications in underlying accounts

There is one new qualification in underlying accounts which is material to WGA, relating to the Department of Health and Social Care. For details of this and of the continuing qualifications in this area, see paragraph 3.22 below.

3.6.3 Quality and timeliness of WGA impacted by OSCAR 2 system for data collection and accounts preparation

The timeliness of WGA 2019-20 was impacted by issues arising from the first year of implementation of a new information system, OSCAR 2. Late submissions of data were driven both by late account completion and by technological problems in submitting data. OSCAR 2 implementation issues also caused delays to the accounts production process.

These same issues were not repeated in 2020-21. HM Treasury carried out extensive testing of the data collection tool before submissions opened and, together with component finance teams' greater familiarity with the system in its second year of operation, the data collection phase went smoothly. HM Treasury received positive feedback from components about the operation of the data collection tool for WGA 2020-21. System capacity issues impacted some users although not significantly, and these issues were subsequently resolved. HM Treasury has taken further action in conjunction with the software supplier to improve performance, train users, and further mitigate future system capacity issues.

As well as data collection, HM Treasury uses OSCAR 2 to help produce the WGA financial statements. OSCAR 2 did not impact on the preparation of WGA 2020-21 as HM Treasury worked closely with the software supplier to ensure that the issues resolved during the 2019-20 accounts preparation phase did not reoccur. There is now a well-established process to resolve defects as they arise and implement changes requested by HM Treasury.

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

The level of risk to the preparation of WGA arising from inaccuracies in returns is unchanged from previous years. For 2020-21, the threshold at which local government entities' WGA data submission are required to be audited was increased to harmonise it with the thresholds for central government entities and public corporations. HM Treasury have undertaken a new programme of work to help provide additional assurance over unaudited data submissions so that overall risk is unchanged. Additionally, the OSCAR 2 data collection system contains a significant number of data validation checks to ensure submissions are internally consistent. I consider that the work undertaken by HM Treasury during the adjustments and analytical review processes of WGA preparation is sufficient to mitigate this risk and reduce the risk of material misstatement to a low level.

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

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

3.7 The WGA governance framework has been in place for the year ended 31 March 2021 which this account reports on and the full period of account preparation up to the date of approval. The governance framework accords with HM Treasury guidance, including the 'Corporate Governance in Central Government: Code of Good Practice', to the extent that it applies to WGA.

The WGA governance framework

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

- The **HM Treasury Group Audit and Risk Committee**, chaired by a non-executive member and supported by the Treasury's internal audit function, reviews the department's approach to internal control and provides independent advice, with oversight of financial reporting and risk management activities associated with WGA.
- The **Government Internal Audit Agency** (GIAA) is available to provide support if the Audit and Risk Committee and I assess that the additional assurance provided by an internal audit engagement is required. GIAA carried out a review of WGA controls and processes during the 2022/23 financial year.
- As well as the internal framework of governance and risk management, the WGA is subject to external audit provided by the **Comptroller & Auditor General**, supported by staff from the National Audit Office (NAO). The Comptroller & Auditor General is independent and reports his findings on the accounts to Parliament. The Comptroller & Auditor General does not provide assurance to me, but the work of his staff supports my assessment of risks. More information about the respective responsibility of the auditor and preparer can be found in the Comptroller & Auditor General's audit certificate in Chapter 5. The Comptroller & Auditor General and his staff have access to all HM Treasury papers and NAO staff attend HM Treasury's Audit and Risk Committee.

How WGA is prepared

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

Data collection

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

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

3.12 The format of financial statements varies across the UK public sector. In order to be consolidated into WGA, entities have to provide audited data in a standardised format using a data collection tool provided by the Treasury. The data collection tool covers the whole of an entity's group. For WGA 2020-21, data collection returns were requested for 1082 entities, of which returns were received for 927 entities.

3.13 Not every entity in the public sector is consolidated into WGA. The largest entity which is excluded is NatWest (formerly the Royal Bank of Scotland RBS). Paragraph 3.24 explains how this leads to a qualification of the auditor's opinion. In addition to NatWest, very small stand-alone entities (below £30 million) are not consolidated and the Treasury publishes a list of these entities alongside WGA on gov.uk. Finally, there are some entities which are part of the public sector but are not answerable to the Executive function of government that are also excluded from WGA. These include entities such as the Crown Estate and the NAO. The Treasury also publishes a list of these entities alongside WGA on gov.uk.

Adjustments and eliminations

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

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

3.16 As part of the WGA preparation process, the Treasury reviews and adjusts transactions between WGA entities until the difference in what is reported by entities (known as the 'eliminations error') is at an acceptable level. For the 2020-21 WGA the final elimination error in the Statement of Financial Position is £2.2 billion (2019-20: £3.9 billion) and in the Statement of Revenue and Expenditure, £2.5 billion (2019-20: £3.8 billion).

Analytical review

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

How WGA is being used

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

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

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

Qualifications

3.20 The 2020-21 WGA audit opinion has been qualified as a result of qualifications in underlying accounts and as a result of issues relating to the boundary, non-coterminous year ends and accounting policies applied by the Treasury when carrying out the WGA consolidation.

Qualifications in underlying accounts

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

3.22 The qualifications that are material to WGA are summarised below:

- The **Department of Health and Social Care** (DHSC) is unable to access, at any given point in time, personal protective equipment (PPE) inventory that is stored in sealed containers. In addition, due to the pace at which PPE inventory purchasing was stood up, DHSC does not have a single integrated inventory management system that provides automated linkage between its purchasing records and the inventory present in the storage network on an order by order basis. The combination of these factors meant that DHSC's auditors could not view and therefore verify the existence of a significant proportion of the PPE inventory held, and sufficient alternative evidence was not available. The Comptroller & Auditor-General's view was that having physical access to inventory was a key part of audit assurances in this area, and so qualified his opinion on the DHSC accounts on the basis of lack of records in respect of inventory. Similarly, the Comptroller & Auditor-General was unable to obtain sufficient assurance in respect of the existence and valuation of DHSC's accruals and so qualified his opinion due to insufficient evidence available to demonstrate this area was free from material misstatement.

- The **Department for Environment, Food and Rural Affairs** received a qualified opinion due to insufficient evidence that the value of property, plant and equipment consolidated into the Department from the Environment Agency was not materially misstated. Neither the Environment Agency nor the Department in preparing consolidated accounts correctly applied the Depreciated Replacement Cost method for valuing its infrastructure assets, as a professional valuation prepared on the Depreciated Replacement Cost basis was not obtained. The Comptroller & Auditor-General also identified errors and uncertainties within the quinquennial revaluation of property, plant and equipment consolidated into the Departmental Group from the Environment Agency.

Qualifications from the consolidation process

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

- A new qualification for 2020-21 arises due to the **number of bodies for which consolidation data was requested but not received**. As a result, these bodies are not consolidated into WGA 2020-21. The majority of missing entities are English local government bodies, however the two largest are Scottish pension schemes. As noted above, this is a matter I am taking very seriously. Note 1 to the accounts provides further details.

- The **boundary qualification** arises as a result of WGA making a conscious policy choice to exclude certain bodies from the consolidation. The largest of the bodies to be excluded is NatWest (formerly the Royal Bank of Scotland (RBS)). The scale and nature of

NatWest's activities would distort the picture of UK finances. This qualification will remain as long as NatWest is in public ownership.

- The qualification on **inconsistent accounting policies** mainly relates to different methods used in valuing infrastructure assets. The largest difference remaining is the valuation of the local authority road network which will remain as a qualification in the medium term. The different method used to value infrastructure assets held by the Environment Agency also contributes to this qualification.
- The **non-coterminous year ends** qualification mainly relates to the inclusion of academy schools which have a year end of 31 August, as opposed to the 31 March date used by WGA.
- The qualification on **consolidation of components whose accounts have not been audited** relates to the consolidation of draft accounts data for a number of local authorities whose statutory audits have not yet concluded. This qualification particularly relates to property, plant and equipment valuations. In the absence of a component audit opinion, NAO were unable to obtain sufficient assurance that the valuations of these assets are materially correct. This was a new qualification in 2019-20 and was the result of delays in local authority audits.

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

WGA and the Academies sector

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

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

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

3.28 The balance as at 31 August 2020 was £59.7 billion and this was included in the 2020-21 WGA. We now know that the 31 August 2021 balance was £62.4 billion (which will be included in the 2021-22 WGA) and that the balance as at 31 March 2021 is likely to be in between those two figures, giving an estimated maximum error of £2.7 billion on this year's figure. In a similar manner we can estimate the maximum error for other balance sheet items at 31 March 2020 and at 31 March 2021.

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

Comparing balance sheet positions – 31 March 2020

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

Source: SARA 2020

Comparing balance sheet positions – 31 March 2021

Item (£bn)	SARA balance 31 August 2021 (will be included in the 2021-22 WGA)	SARA balance 31 August 2020 (included in the 2020-21 WGA)	Estimated Maximum amount of variance between 31 August and 31 March.
Property plant and equipment	62.4	59.7	2.7
Cash and cash equivalents	5.9	4.7	n/k
Other assets	1.8	1.8	0.0
Pension liability	(17.9)	(13.9)	(4.0)
Other liabilities	(2.9)	(2.7)	(0.2)

Source: SARA 2021

Balancing timeliness, quality and cost effectiveness of data

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

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

3.31 However, I am conscious that the scale of qualifications in WGA is very unusual and not something seen in many sets of financial accounts. This is something I, as Accounting Officer take very seriously. Many countries across the world produce something equivalent to WGA but none consolidate to the scale of WGA. WGA is unique in that it consolidates financial information from across the whole public sector and is an audited IFRS-based accounts. Whilst this breadth and scrutiny creates many challenges, I am keen that we continue to do all we can to reduce the qualifications in WGA and limit our exposure to additional qualifications in future. This is something that HMT are prioritising for future years' WGA.

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

3.33 I have made a similar judgement regarding the balance between timeliness and quality when considering the cut-off point for data collection. In order to meet the agreed publication timetable for WGA 2020-21 and future years, it was necessary to close data collection for the 2020-21 period so that accounts preparation work could be carried out in the most efficient manner with a stable dataset. Closing data collection for 2020-21 also allowed data collection for 2021-22 to take place while the 2020-21 accounts were being prepared. This will allow preparation of WGA 2021-22 to begin shortly after publication of WGA 2020-21. Extending the data collection period for WGA 2020-21 would potentially have increased the number of bodies submitting data, or replacing their initial draft returns with audited data, thereby increasing the coverage and quality of data consolidated within WGA. However, doing so would delay publication of WGA 2020-21 and future years.

Assurance in making this judgement

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

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

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

Information and data handling

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

Disclosure of information to auditors

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

3.39 I confirm that this annual report and accounts 2020-21 is, as a whole, fair, balanced and understandable. I take personal responsibility for the annual report and accounts, including the judgements required for determining that it is fair, balanced and understandable.

Conrad Smewing

Accounting Officer

14 July 2023

Chapter 4

Financial Statements

Statement of Revenue and Expenditure

For the year ended 31 March 2021

	Note	2020-21 £bn	2019-20 £bn
Taxation revenue	4	(650.7)	(696.7)
Other revenue	5	(80.8)	(116.6)
Total public services revenue		**(731.5)**	**(813.3)**
Social security benefits	6	258.4	240.0
Staff costs	7	253.5	235.3
Purchase of goods and services	8	238.7	223.6
Grants and subsidies	9	197.2	62.2
Depreciation and impairment	10	61.9	51.5
Interest costs on government borrowing	11	21.2	31.8
Increase/(decrease) in provisions	22	32.1	74.3
Total expenditure on public services		**1,063.0**	**918.7**
Net expenditure on public services		**331.5**	**105.4**
Financing costs of long-term liabilities, including discounting	11	55.7	66.0
Revaluation of financial assets and liabilities		17.2	20.4
Net (income)/expenditure for the year		**404.4**	**191.8**

Statement of Comprehensive Income and Expenditure

For the year ended 31 March 2021

	2020-21 £bn	2019-20 £bn
Net (income)/expenditure for the year	404.4	191.8
Other comprehensive income and expenditure:		
Net (gain)/loss on:		
Revaluation of property, plant and equipment	(23.0)	(29.7)
Revaluation of intangible assets	(0.4)	(1.0)
Revaluation of assets measured at Fair Value through Other Comprehensive Income	(6.2)	10.6
Revaluation of pension scheme liabilities	217.2	220.6
Other comprehensive (income)/ and expenditure	187.6	200.5
Total comprehensive (income)/ expenditure for the year	**592.0**	**392.3**

Statement of Financial Position

As at 31 March 2021

	Note	2020-21 £bn	2019-20 £bn
Non-current assets			
Property, plant and equipment	12	1,270.3	1,313.3
Investment properties	13	16.5	24.1
Intangible assets	14	41.0	40.2
Trade and other receivables	15	20.6	22.3
Other financial assets	16	340.8	299.2
		1,689.2	**1,699.1**
Current assets			
Inventories	17	15.3	10.6
Trade and other receivables	15	182.3	159.7
Other financial assets	16	264.9	217.0
Cash and cash equivalents	18	39.6	37.6
Gold holdings	33	12.3	12.8
Assets held for sale		3.1	1.7
		517.5	**439.4**
Total assets		**2,206.7**	**2,138.5**
Current liabilities			
Trade and other payables	19	(169.3)	(143.2)
Government borrowings	20	(274.0)	(344.7)
Other financial liabilities	21	(943.3)	(656.8)
Provisions	22	(28.4)	(30.4)
		(1,415.0)	**(1,175.1)**
Non-current liabilities			
Trade and other payables	19	(52.0)	(57.9)
Government borrowings	20	(1,246.3)	(1,100.7)
Other financial liabilities	21	(175.5)	(105.1)
Provisions	22	(338.0)	(344.4)

Net public sector pension liability	24	(2,306.2)	(2,189.5)
Total non-current liabilities		**(4,118.0)**	**(3,797.6)**
Total liabilities		**(5,533.0)**	**(4,972.7)**
Net liabilities		**(3,326.3)**	**(2,834.2)**
Financed by taxpayers' equity:			
General reserve		(3,932.3)	(3,436.1)
Revaluation reserve		601.8	597.3
Other reserves		4.2	4.6
Total liabilities to be funded by future revenues		**(3,326.3)**	**(2,834.2)**

The financial statements and supporting notes on pages 118-251 and Annex A form part of these accounts.

Conrad Smewing

Accounting Officer

14 July 2023

Statement of Changes in Taxpayers Equity

For the year ended 31 March 2021

	General reserve £bn	Revaluation reserve £bn	Other reserves £bn	Total £bn
At 1 April 2019 (restated)	**(3,048.8)**	**588.8**	**4.2**	**(2,455.8)**
Net income /(expenditure) for the year ended 31 March 2020	(191.8)	-	-	(191.8)
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	29.7	-	29.7
Revaluation of intangible assets	-	1.0	-	1.0
Revaluation of assets measured at Fair Value through Other Comprehensive Income	-	(10.6)	-	(10.6)
Revaluation of pension scheme liabilities	(220.6)	-	-	(220.6)
Other reserves movements including transfers	25.1	(11.6)	0.4	13.9
Balance at 31 March 2020	**(3,436.1)**	**597.3**	**4.6**	**(2,834.2)**
Restatements	0.4	-	-	0.4
Impact on opening balances – missing entities (1)	94.7	(20.2)	(0.2)	74.3
Net income/(expenditure) for the year ended 31 March 2021	(404.4)	-	-	(404.4)
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	23.0	-	23.0
Revaluation of intangible assets	-	0.4	-	0.4
Revaluation of assets measured at Fair Value	-	6.2	-	6.2

through Other Comprehensive Income				
Revaluation of pension scheme liabilities	(217.2)	-	-	(217.2)
Other reserves movements including transfers	30.3	(4.9)	(0.2)	25.2
Balance at 31 March 2021	**(3,932.3)**	**601.8**	**4.2**	**(3,326.3)**

(1) A number of entities submitted data for consolidation in 2019-20 but did not submit data in 2020-21. This had an impact on movements on opening balances which is shown above. Further details are provided in the Performance Report and Note 1 to the accounts.

Statement of Cash Flows

For the year ended 31 March 2021

	Note	2020-21 £bn	2019-20 £bn
Cash flows from operating activities			
Net operating expenditure for public services	SoRE	(331.5)	(105.4)
Adjustments for non-cash transactions		172.9	190.2
Impact of missing entities (boundary adjustment) (2)		89.3	-
Adjustment for non-operating transactions		5.7	25.9
(Increase)/decrease in inventories	17	(14.3)	(0.9)
(Increase)/decrease in trade and other receivables	15	(20.9)	8.3
Increase/(decrease) in trade and other payables	19	20.2	9.2
Net cash movement for the provision of pensions		(51.4)	(44.3)
Use of provisions	22	(25.3)	(15.2)
Net cash inflow/(outflow) from operating activities		**(155.3)**	**67.8**
Cash flows from capital expenditure and financial investment			
Purchase of non-financial assets		(64.4)	(66.2)
Proceeds from disposal of non-financial assets		3.2	6.3
Net cash inflow/(outflow) from purchase and disposal of financial assets and liabilities		(262.3)	(67.5)
Net cash inflow/(outflow) from capital expenditure and financial investment		**(323.5)**	**(127.4)**
Cash flows from financing activities			
Interest received	5	6.4	8.2
Financing costs of long-term liabilities		(45.6)	(48.4)
Finance charges paid on finance leases and PFI contracts		(3.7)	(6.8)

Net Borrowings		523.7	100.0
Net cash inflow/(outflow) from financing activities		**480.8**	**53.0**
Net increase/(decrease) in cash and cash equivalents	18	2.0	(6.6)
Cash and cash equivalents at the beginning of the year	18	37.6	44.2
Cash and cash equivalents at the end of the year	18	**39.6**	**37.6**

(2) A number of entities submitted data for consolidation in 2019-20 but did not submit data in 2020-21. This had an impact on movements on opening balances which is shown above. Further details are provided in the Performance Report and Note 1 to the accounts.

Notes to the accounts

Note 1. Statement of accounting policies

1.1 Basis of preparation

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

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

1.2 Accounting convention

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

1.3 Basis of consolidation

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

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

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

WGA also does not include minor bodies (those with assets, liabilities, income and expenditure all less than £30 million (2019-20: £20 million)), and a small number of non-government entities that report directly to Parliament, such as the National Audit Office.

WGA is prepared by consolidating financial data provided by components based on their own audited statutory accounts (or the best available data if the audit of their statutory accounts is not yet finalised), supplemented with additional information where required. For components with transactions and balances over a certain threshold, the financial data provided for consolidation is reviewed by the component's own auditor to confirm consistency with the audited statutory accounts. The threshold is £2 billion (increased local government threshold from £0.5 billion in 2019-20), applicable to any of income, expenditure, assets excluding property, plant and equipment, or liabilities excluding pension liabilities. Pension scheme accounts do not exclude pension liabilities.

The list of components consolidated into WGA is not identical each year as bodies are created and dissolved, classified into and out of the public sector by ONS, and, in some cases, do not submit data for consolidation. The number of bodies which have failed to submit data has historically been low and was not disproportionate to other changes to the boundary. The net effect of all boundary changes on WGA was not material and therefore not separately presented in the financial statements.

In 2018-19, 13 bodies did not submit consolidation data, all of which were local authorities. Of those bodies, 5 were above the audit threshold (at that time, £0.5 billion for local authorities). In 2019-20, 21 bodies (all local authorities) did not submit consolidation data, of which 6 were above the audit threshold (unchanged at £0.5 billion).

For WGA 2020-21, a further 137 bodies did not submit data for consolidation, of which 111 were local authorities. This is a substantial omission of data and causes a significant difference between balances at 31 March 2020 and the consolidated balances at 1 April 2020 of those bodies which submitted data for 2020-21. The difference between these two sets of figures is presented as a boundary adjustment line in the SOCTE and in those notes to the financial statements where a 1 April 2020 balance is shown. The boundary adjustment shown on the SOCTE is £74.3 billion. The equivalent figure for 2019-20 was £2.2 billion, presented within other reserves movements. For notes which present totals as at 31 March 2020 and 2021, material variances due to this missing data are discussed in the note narrative.

Three annexes are published alongside WGA on gov.uk, which list the entities consolidated into WGA 2020-21 and also those which are within the WGA boundary but not consolidated in 2020-21:

- Annex 1: list of entities consolidated in the WGA
- Annex 2: entities that are not consolidated in the WGA. This annex includes non-government entities which report directly to Parliament, and those entities which did not submit consolidation data in 2020-21.
- Annex 3: minor bodies excluded from the consolidation. This annex provides details of small bodies not consolidated due to their size.

Bodies which are part of the public sector but not consolidated into WGA (as shown in Annex 2 section 2) are considered related parties to WGA. See Note 31 for further details.

1.4 Accounting standards in issue but not yet effective

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

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

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

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

The FReM allows early adoption of IFRS 16 from 2021-22 where approval has been received from the relevant authority. The Ministry of Justice, Department for Business, Energy and Industrial Strategy, HM Land Registry and Crown Prosecution Service adopted IFRS 16 from that date, however WGA will continue to be presented on an IAS 17 basis for 2021-22.

In the local government sector adoption of IFRS 16 has been deferred until 2024-25, with early adoption allowed in 2022-23 or 2023-24.

IFRS 17 'Insurance Contracts' was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. It is not possible at this time to quantify the impact of IFRS 17 on WGA, as this will be dependent on choices made on the scope and applicability of the standard to the public sector, and work done within individual entities to assess the impact on their own business.

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

1.5 Foreign Currency

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

1.6 Revenue

Taxes and duties

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

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

Taxable events for material tax streams are as follows:

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

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

Amounts collected on behalf of the EU

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

Other revenue

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

1.7 Expenditure

Social security benefits

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

Staff costs

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

Grants and subsidies

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

Interest costs

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

1.8 Property, plant and equipment

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

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

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

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

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

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

1.9 Investment properties

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

1.10 Intangible assets

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

1.11 Depreciation and amortisation

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

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

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

Intangible assets are usually amortised over the following timescales:

Type	Period
Military equipment	Up to 35 years
Development expenditure	Up to 35 years
Software	Up to 20 years
Licenses and other	Up to 15 years

1.12 Inventories

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

1.13 Cash and cash equivalents

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

1.14 Gold holdings

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

1.15 Trade and other receivables

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

1.16 Leases

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

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

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

1.17 Private Finance Initiatives (PFI)

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

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

Several WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these off-balance sheet contracts in their accounts in different ways in 2020-21, as the accounting standards allow flexibility as to how to present the information.

1.18 Provisions

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

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

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

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

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

1.19 Pension liabilities

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

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

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

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

The gains and losses on revaluation reflect three elements:

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

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

1.20 Financial instruments

Financial assets

Financial assets are categorised as one of the following:

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

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

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

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

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

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

IFRS 9 impairment requirements for financial assets apply to:

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

Financial liabilities

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

1.21 Contingent liabilities and contingent assets

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

1.22 Events after the reporting period

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

Note 2. Critical accounting estimates and judgements

2.1 WGA boundary

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

The exceptions to this policy are:

- WGA excludes a small number of entities such as the National Audit Office, Crown Estate and Audit Scotland that are accountable to their respective parliaments or assemblies rather than to an executive arm of the government, and therefore do not form part of government. The total impact of excluding these bodies from WGA is estimated to be £1.6 billion of gross expenditure and £18.5 billion of net assets. Some of these amounts would be eliminated on consolidation. Over £15.2 billion of the net assets not included in WGA are owned by the Crown Estate.
- Minor entities are excluded on the basis that they are too small to have any material impact on WGA. The criteria used for minor bodies in 2020-21 was that they had to have gross expenditure, income, assets and liabilities of less than £30 million (2019-20: £20 million). For example, this includes some district councils. The total impact of excluding minor bodies is estimated to be £0.7 billion of gross expenditure and £0.1 billion of net assets. Some of these amounts would be eliminated on consolidation.

The WGA also does not include some other bodies such as Trust Ports and most significantly NatWest.

NatWest

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

The table below sets out the estimated effect of excluding NatWest from the consolidation. It is based on NatWest's financial results for the year ended 31 December 2020. It does not include an estimate of the changes required to align the year end or accounting policies.

	2020-21 WGA	2020 NatWest	Eliminations	WGA plus NatWest
	£bn	£bn	£bn	£bn
Revenue	731.5	13.9	(1.3)	744.1
Expenditure	(1,063.0)	(14.4)	1.3	(1,076.1)
Net Expenditure	**(331.5)**	**(0.5)**	**-**	**(332.0)**
Assets	2,206.7	799.5	(116.0)	2,890.2
Liabilities	(5,533.0)	(755.7)	116.0	(6,172.7)
Net Assets / (Liabilities)	**(3,326.3)**	**43.8**	**-**	**(3,282.5)**

2.2 Effects of the Covid-19 pandemic

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

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

As at 31 March 2021, Covid-19 and the measures taken to tackle it continued to affect economies and real estate markets globally, however, transaction volumes had returned to a level where property valuations were no longer subject to material uncertainty.

Due to the timing of the pandemic support schemes were being developed in March 2020 very close to the financial year end, which in some cases meant careful consideration of the amounts to be recognised in 2019-20. See 2.2.3 below for the significant judgements the Department for Business, Energy and Industrial Strategy made in this area.

A number of departments had significant accounting judgements in determining ECL figures for financial assets in 2019-20 given the economic climate in 2020. Macro-economic forecasts quickly became outdated and there was a need to continuously monitor for new information becoming available within the rapidly changing environment. See 2.3 below for judgements HM Revenue and Customs made around accrued tax revenue, which persisted into 2020-21.

2.2.1 Recognition point of Covid-19 support scheme expenditure

In considering their accounting for grant expenditure in relation to the Covid-19 support schemes, HM Revenue & Customs (HMRC) have sought to identify the point at which they have a present obligation to pay. The legal authority for HMRC to operate and pay claims for the Coronavirus Job Retention Scheme (CJRS), Self-Employment Income Support Scheme (SEISS) and Eat Out to Help Out (EOHO) stems from HM Treasury directions, so HMRC judges that the issue of these directions establishes a present obligation for the department to transfer the grant.

For claims in respect of CJRS and EOHO, HMRC accounts for the expenditure on an accrual basis and in the financial year in which the economic activity being subsidised has or would have, but for the pandemic, taken place. For CJRS, this was for the period the employer claimed for expenditure incurred for furloughed staff. For EOHO, this was for the period restaurants claimed for discounting the cost of food and non-alcoholic drinks.

For the SEISS, HMRC recognises expenditure for the first, second and third tranche of SEISS in the financial year 2020-21 when a qualifying claim was made. The HM Treasury Direction for the fourth grant of the SEISS had not been issued as at 31 March 2021. Accordingly no provision or accrual for the fourth grant has been recognised for 2020-21.

2.2.2 Inventory impairments relating to personal protective equipment

During the year the Department of Health and Social Care (DHSC) made significant judgements in relation to the impairment of inventories. The impairment for items assessed as not being suitable either for their original intended purpose or for any use is calculated at weighted average cost.

Items not suitable for use within the health and social care sector but which may be suitable for other users are held for future sale or donation, as are items with an expiry date prior to the expected usage date. An impairment adjustment for these items reduces the valuation to the amount realisable from future sale.

Usable inventory is subject to an impairment adjustment where fluctuations in the market price of personal protective equipment mean that the net realisable value has fallen below weighted average cost at the year end. This impairment reflects a reduction in the market price of these items between the point of purchase and 31 March 2021.

In assessing the value of impairments to personal protective equipment which may become surplus to requirements DHSC compared the level of future demand compared to inventory held at the year end. The shelf life of each category of inventory was also considered.

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

The Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund were announced by the Chancellor in March 2020. The Guidance to Local Authorities (LAs) setting out how LAs would manage the grants on behalf of the Department for Business, Energy and Industrial Strategy (BEIS) was issued on 24 March 2020. The Guidance to Businesses (the ultimate grant recipients) was issued on 1 April 2020, the same day as funding was provided from BEIS to LAs to make grant payments. Due to the impact of Covid-19, LAs were encouraged to make early payments to eligible grant recipients from their own funds.

BEIS recognised a provision of £10.8 billion in 2019-20 for these grants. This was because the announcements and payments made prior to 31 March 2020 created a constructive obligation under IAS 37. This amount was based on eligibility and payments information received from LAs after 31 March 2020 and was limited by the closure of the scheme after the year end. As a result, there were no particular valuation uncertainties.

2.2.4 Valuation of guarantee liability for Bounce Back Loan Scheme and Coronavirus Business Interruption Loan Scheme

The liabilities for the Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS) are subject to significant estimation uncertainty relating primarily to estimates of probability of default of the underlying loans and recoveries from borrowers post-claim. There is an absence of information relating to historical loan performance for these new schemes, uncertainty over forward macroeconomic conditions, absence of repayment data for analysis of performance on existing loans as at 31 March 2021 due to immaterial loan repayments during the reporting period; and, for BBLS, uncertainty in relation to levels of fraudulent borrowing.

2.3 Taxation revenue

Taxation revenue is recognised in the period in which the event that generates the revenue occurs. Some of the accrued revenue receivable figures and other items are subject to statistical estimation of forecasts, as tax returns and tax payments can be filed later. Due to the areas of uncertainty involved, actual outcomes could differ from the estimates used. HM Revenue and Customs (HMRC) noted that, at the time of publication of their 2020-21 Annual Report and Accounts, the full impact of Covid-19 on accrued tax revenue was unknown which increased the level of uncertainty within their estimations. Each year HMRC reviews the performance of its estimation models. In 2019-20, the Accrued Revenue Receivable (ARR) overestimation was £1.9 billion (0.3% of that year's total revenue) and the Accrued Revenue Payable (ARP) overestimation was £0.1 billion (0.02% of that 2019-20 total revenue). HMRC's 2021-22 Annual Report and Accounts discloses that for 2020-21 the ARR underestimation was £11.1 billion (1.8% of total revenue for that year) and the ARP underestimation was £0.9 billion (0.1% of total revenue for 2020-21).

2.4 Valuation of infrastructure assets

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

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

The best proxy currently available for depreciated replacement cost is the calculated asset value used by the ONS in the National Accounts. The National Accounts estimated the value of local government networked assets at £149.9 billion (2019-20: £146.9 billion restated) as at 31 December 2020. Infrastructure assets are likely to be understated by at least £86.1 billion. The ONS figure excludes land, and therefore the total error is likely to be larger than the figure stated. Further information regarding this departure from the FReM can also be found in Chapter 3.

Rail network

The strategic rail network owned by Network Rail is valued using a complex model. As at 31 March 2021 this asset is valued at £336.8 billion (2019-20: £332.3 billion). The following sensitivity analysis reflects the sources of estimation uncertainty, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

Remaining asset lives: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10%	313.3	(23.5)	(7%)
Base assumptions	336.8	N/A	N/A
Increase by 10%	360.3	23.5	7%

The land valuation includes an assessment of land purchase compensation costs. As Network Rail rarely purchases large parcels of land, the estimate of -69% shown below reflects the experience of Highways England.

Land compensation adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10pp (to 59%)	330.8	(6.0)	(2%)
Base assumption (69%)	336.8	N/A	N/A
Increase by 10pp (to 79%)	342.8	6.0	2%

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

Greenfield site adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10pp (to 22%)	342.7	5.9	2%
Base assumption (32%)	336.8	N/A	N/A
Increase by 10pp (to 42%)	330.9	(5.9)	(2%)

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

Risk factor adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10pp (to 12%)	317.6	(19.2)	(6%)
Base assumption (22%)	336.8	N/A	N/A
Increase by 10pp (to 32%)	356.0	19.2	6%

Strategic road network

The strategic road network owned by Highways England is valued using a complex model. As at 31 March 2021 this asset is valued at £134.6 billion (2019-20: £128.5 billion).

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

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

Costing rates: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10%	121.2	(13.0)	(10%)
Base assumptions	134.6	N/A	N/A
Increase by 10%	148.0	13.0	10%
Sensitivity to Highways England Capital Enhancement Cost Index (HECI)	**Depreciated Replacement Cost £bn**	**Change £bn**	**%**
Base case	134.6	N/A	N/A
Increase by 10%	146.0	11.4	8%

2.5 Financial assets

Student loans

Due to the implementation of IFRS 9, student loans are carried at fair value through profit or loss (FVTPL). The FReM requires that where future cash flows are discounted to measure fair value, the higher of the rate intrinsic to the financial instrument or HMT's current discount rate should be used. The discount rate used to discount expected cash flows to calculate the fair value of student loans is the intrinsic rate of the loan for Master's loans, and HMT's standard cross-government discount rate of RPI+0.7% (2019-20: RPI+0.7%) for the remainder of the loan books, as required by the FReM interpretation of IFRS 9.

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

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

Term Funding Scheme (TFS) and Term Funding Scheme with additional incentives for SMEs (TFSME) loans

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

TFS loans are cash loans made to eligible participants for a term of four years and secured against eligible collateral. Participants are charged interest on the loans equal to Bank Rate plus a Scheme fee. The fee is determined based on the net lending of each participant over the reference period of the scheme and ranges from 0 basis points to 25 basis points.

The drawdown period for TFSME will run until 31 October 2021 and the term of each transaction is for four years from the date of drawdown. The Bank charges interest on TFSME transactions equal to Bank Rate plus a Scheme fee (TFSME Fee). The TFSME Fee is determined at the end of the reference period, based on the net lending over the reference period. This fee ranges from 0 basis points to 25 basis points. The reference period runs from 31 December 2019 to 30 June 2021. Any scheme fees due will be recognised once the reference period has closed.

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

2.6 Public sector pension liability

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

The key financial assumptions used by the actuaries of government pension schemes to determine 2020-21 and 2019-20 WGA pension liabilities are set out below:

	2020-21		
	Unfunded central government %	**Unfunded local government %**	**Funded local government %**
Rate of increase in salaries	3.72	3.10-4.50	2.30-4.50
Rate of increase of Pensions in Payment	2.22	2.00-2.90	1.80-3.55
Discount rate: real	(0.95)		
Discount rate: nominal	1.25	1.70-2.40	1.70-4.15
Price inflation assumption	2.22	2.00-4.10	1.80-3.80

	2019-20		
	Unfunded central government %	**Unfunded local government** %	**Funded local government** %
Rate of increase in salaries	4.10	1.80-4.40	1.80-4.00
Rate of increase of Pensions in Payment	2.35	1.80-4.00	1.60-3.40
Discount rate: real	(0.50)		
Discount rate: nominal	1.80	1.50-2.50	0.50-2.60
Price inflation assumption	2.35	0.50-4.00	0.10-4.00

2.7 Provision for nuclear decommissioning

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

The estimate is necessarily based on assumptions regarding processes and methods likely to be used to discharge the obligations, reflecting a combination of latest available technical knowledge, requirements of the existing regulatory regime, government policy and commercial agreements. Given the very long timescale involved and the complexity of the plants and material being handled, considerable uncertainty remains in the estimates of future costs, particularly in later years. The estimate is updated to reflect changed circumstances and more recent knowledge and changed assumptions; as a result, material adjustments could be made to the carrying amount of the nuclear decommissioning provision and related assets and liabilities in the future. The principal assumptions and sensitivities around the cost estimates were reviewed and updated by NDA management as at 31 March 2021.

Sensitivity analysis

	% Change	Provision (£bn)
Increase in discount rate	0.5%	117
Decrease in discount rate	0.5%	160

Four different discount rates are used, according to the expected timing of cashflows (from short-term to very long-term), see Note 22 for details for the rates used each year. The change in discount rates in 2020-21 produced a decrease of £0.7 billion (2019-20: £3.8 billion decrease). This figure excludes the change relating to inflation plus the recoverable contract costs off-setting balance which otherwise result in a decrease of £0.2 billion (2019-20: £0.2 billion).

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

	Waste	Research	Sellafield	Fuel*	Others	2020-21 Total	2019-20 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Up to 1 year	0.1	0.2	2.3	0.4	0.1	3.1	3.0
2 to 5 years	0.6	0.8	10.5	2.0	0.4	14.3	12.3
6 to 20 years	3.0	1.4	32.1	5.6	0.8	42.9	42.7
21 to 50 years	3.5	0.1	31.9	8.8	0.6	44.9	45.7
50 years +	4.2	0.1	22.5	3.4	0.3	30.5	31.2
	11.4	**2.6**	**99.3**	**20.2**	**2.2**	**135.7**	**134.9**
Deduction in respect of Site Licence Companies pension receivable from NDA						(0.6)	(0.2)
Total NDA Decommissioning Provisions						**135.1**	**134.7**

*Fuel manufacturing and generation

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

	Waste	Research	Sellafield	Fuel*	Others	2020-21 Total	2019-20 Total
Sensitivity	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Increase	25.4	0.2	81.6	2.0	0.1	109.3	111.8
Reduction	(3.9)	(0.4)	(13.6)	(2.0)	(0.2)	(20.1)	(20.3)

*Fuel manufacturing and generation

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

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

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

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

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

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

2.8 Provision for clinical negligence

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

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

The value of the provision is sensitive to changes in discount rates, and a sensitivity analysis is provided below (source: Department of Health and Social Care Annual Report and Accounts 2020-21).

Discount rates (all terms): sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
All rates -1 percentage point	53.8	13.2	32%
Base assumptions	40.6	N/A	N/A
All rates +1 percentage point	31.8	(8.9)	(22%)

Other key sensitivities are claims value inflation, average costs of claim and the probability of a successfully defended claim. A sensitivity analysis of these is shown below (source: Department of Health and Social Care Annual Report and Accounts 2020-21).

Claims value inflation: sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
All rates -1 percentage point	36.2	(4.4)	(11%)
Base assumptions	40.6	N/A	N/A
All rates +1 percentage point	45.7	5.1	13%

Average costs of claim: sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
Reduction in average claim values of 20%	32.9	(7.7)	(19%)
Base assumptions	40.6	N/A	N/A
Increase in average claim values of 20%	48.4	7.7	19%

Probability of a successfully defended claim: sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
All probabilities -5 percentage points	53.8	13.2	32%
Base assumptions	40.6	N/A	N/A
All probabilities +5 percentage points	31.8	(8.9)	(22%)

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

2.9 Provisions related to the EU financial settlement

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

The UK obligation in respect of EU pensions is estimated on the basis of information in the EU's 2020 audited consolidated accounts, and applying the estimated UK post 2020 financing share to end 2020 EU pension obligations, adjusting for the difference in discount rates used in EU accounts and those required under the FReM. The accounting valuations for the pension related liabilities are sensitive to actuarial assumptions (e.g. life expectancy, inflation) for defined benefit pension obligations. The key assumptions are drawn from the EU's 2020 accounts. The UK's post 2020 financing share (the average proportion of the EU Budget over 2014-20 financed by the UK) is estimated based on historical outturn contributions.

The obligation in respect of other employment-related benefits relates to the Joint Sickness Insurance Scheme (JSIS). This obligation is estimated on the basis of the UK's post 2020 financing share of the employer contributions to JSIS made on payment of the pension, to the extent the pension was accrued prior to 31 December 2020, and therefore follows the same profile as estimated for the EU pensions.

The Withdrawal Agreement provide the UK with an option of early settlement on a different valuation basis. HM Treasury has valued the provision using the default calculation basis set out in the Withdrawal Agreement, as HM Treasury's best estimate is that this obligation will not be settled using the early settlement option.

The obligation in respect of the RAL is estimated based on information in EU Budgets adopted on or before 31 March 2021 and associated budget implementation data. The post 2020 financing share is applied to commitments in EU Budgets up to 2020 and adjusted for forecast implementation rates (based on the historical level of commitments that do not lead to payments).

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

Assumption	Change	Degree of uncertainty	Sensitivity of output to changes in input	Financial impacts £bn
Financing share	Increase of 1%	Low	Moderate	Increase of 0.4
Exchange rate	Sterling appreciation of 1%	High	Moderate	Decrease of 0.4
Decommitments	Increase of 1 percentage point	Moderate	Moderate	Decrease of 0.3
Discount rate	Increase of 0.1 percentage point	Moderate	Moderate	Increase of 0.2

2.10 Non-coterminous year ends

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

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

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

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

Academies sector

The Academies sector annual report and accounts has a year end to 31 August 2020. The account is compiled and published by the Department for Education. The Department was unable to estimate, to a material level of accuracy, the adjustments required to reflect their financial position and performance to 31 March. WGA therefore reflects the Academies sector to 31 August 2020, with no adjustments made.

The material balances impacted by this misalignment are property, plant and equipment (where academies report net book value of £59.7 billion) and pension liabilities (where academies report a pension deficit of £13.9 billion). See paragraph 3.28 of the Governance Statement in chapter 3 for estimates of the maximum amount of variance between 31 August and 31 March.

2.11 Contracts for difference (CfDs)

CfDs are a mechanism used to support investment in UK low-carbon electricity generation projects. CfD contracts do this by agreeing with a generator a strike price for electricity supplied, thereby providing the certainty needed for private investment, while protecting consumers from having to continue to pay higher support costs when electricity prices are high. The support payments paid (or repaid) in future will be calculated from the difference between the strike price and the average market price.

WGA includes several CfDs on the Statement of Financial Position. During 2019-20, changes to the forecast models used by BEIS meant it became possible to reliably estimate the valuation of Hinkley Point C (HPC) CfD. As a result of this, BEIS considered the recognition criteria for HPC CfD to have been met, and the HPC CfD was recognised in the BEIS Annual Report and Accounts 2019-20 and subsequent years.

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

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

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

	Favourable / (Unfavourable) changes		
	HPC CfD	Other CfDs	Total Impact
	£bn	£bn	£bn
Change in fair value of CfDs if:			
High Case scenario	4.0	7.4	11.4
Low Case scenario	(4.5)	(6.7)	(11.2)
Discount rate of 3.5%	23.3	6.5	29.8

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

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

Note 3. Segmental Reporting

Segmental reporting 2020-21

	Central government £bn	Local government £bn	Public corporations £bn	Whole of Government £bn
Taxation revenue	(603.4)	(47.3)	-	(650.7)
Other revenue	(46.1)	(22.6)	(12.1)	(80.8)
Total public services revenue	**(649.5)**	**(69.9)**	**(12.1)**	**(731.5)**
Social security benefits	242.8	15.1	0.5	258.4
Staff costs	189.2	58.7	5.6	253.5
Purchase of goods and services	159.5	71.0	8.2	238.7
Interest cost on government borrowing	21.2	-	-	21.2
Increase/(decrease) in provisions	33.0	0.5	(1.4)	32.1
Grants and subsidies	196.3	0.5	0.4	197.2
Depreciation and impairment	48.9	11.8	1.2	61.9
Total expenditure on public services	**890.9**	**157.6**	**14.5**	**1,063.0**
Net (revenue)/expenditure on public services	**241.4**	**87.7**	**2.4**	**331.5**
Financing costs of long-term liabilities, including discounting	47.0	7.2	1.5	55.7
Net loss/(gain) on revaluations and disposals of assets and liabilities	16.5	0.4	0.3	17.2
Net expenditure/(revenue) for the year	**304.9**	**95.3**	**4.2**	**404.4**
Property, plant and equipment	863.8	319.9	86.6	1,270.3
Other non-current assets	246.9	28.1	143.9	418.9
Current assets	393.0	43.7	80.8	517.5
Total assets	**1,503.7**	**391.7**	**311.3**	**2,206.7**

Current government borrowings	(274.0)	-	-	(274.0)
Other current liabilities	(244.5)	(32.4)	(864.1)	(1,141.0)
Non-current government borrowings	(1,246.3)	-	-	(1,246.3)
Provisions non-current	(306.8)	(2.4)	(28.8)	(338.0)
Net public sector pension asset/(liability)	(2,009.4)	(297.1)	0.3	(2,306.2)
Other non-current liabilities	(98.3)	(36.2)	(93.0)	(227.5)
Total liabilities	**(4,179.3)**	**(368.1)**	**(985.6)**	**(5,533.0)**
Net assets/(liabilities)	**(2,675.6)**	**23.6**	**(674.3)**	**(3,326.3)**

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

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

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

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

Note 7 provides a breakdown of staff numbers by sector.

Segmental reporting 2019-20

	Central government £bn	Local government £bn	Public corporations £bn	Whole of Government £bn
Taxation revenue	(630.0)	(66.5)	(0.2)	(696.7)
Other revenue	(60.0)	(43.5)	(13.1)	(116.6)
Total public services revenue	**(690.0)**	**(110.0)**	**(13.3)**	**(813.3)**
Social security benefits	218.1	21.3	0.6	240.0
Staff costs	159.5	70.2	5.6	235.3
Purchase of goods and services	132.2	82.4	9.0	223.6
Interest cost on government borrowing	31.8	-	-	31.8
Increase in provisions	70.1	0.5	3.7	74.3
Grants and subsidies	61.6	0.1	0.5	62.2
Depreciation and impairment	35.6	14.7	1.2	51.5
Total expenditure on public services	**708.9**	**189.2**	**20.6**	**918.7**
Net (revenue)/expenditure on public services	**18.9**	**79.2**	**7.3**	**105.4**
Financing costs of long-term liabilities, including discounting	52.0	10.0	4.0	66.0
Net loss/(gain) on revaluations and disposals of assets and liabilities	21.4	0.6	(1.6)	20.4
Net expenditure/(revenue) for the year	**92.3**	**89.8**	**9.7**	**191.8**
Property, plant and equipment	838.7	389.7	84.9	1,313.3
Other non-current assets	209.1	37.8	138.9	385.8
Current assets	341.5	43.3	54.6	439.4
Total assets	**1,389.3**	**470.8**	**278.4**	**2,138.5**
Current government borrowings	(344.7)	-	-	(344.7)

Other current liabilities	(208.8)	(31.8)	(589.8)	(830.4)
Non-current government borrowings	(1,100.7)	-	-	(1,100.7)
Provisions non-current	(313.0)	(2.5)	(28.9)	(344.4)
Net public sector pension asset/(liability)	(1,914.4)	(275.8)	0.7	(2,189.5)
Other non-current liabilities	(98.5)	(45.5)	(19.0)	(163.0)
Total liabilities	**(3,980.1)**	**(355.6)**	**(637.0)**	**(4,972.7)**
Net assets/(liabilities)	**(2,590.8)**	**115.2**	**(358.6)**	**(2,834.2)**

Note 4. Taxation revenue

	2020-21 £bn	% of total	2019-20 £bn	% of total
Income tax	191.9	29%	194.2	28%
National Insurance Contributions (NIC)	125.8	19%	126.6	18%
Value added tax (VAT)	122.1	19%	137.2	20%
Corporation tax	53.7	8%	52.4	8%
Hydrocarbon oils duty	21.3	3%	27.3	4%
Excise Duty	29.9	5%	29.0	4%
Stamp taxes	13.2	2%	16.2	2%
Capital gains tax	12.0	2%	10.0	1%
Other taxes and duties	31.0	5%	34.9	5%
Central government taxation revenue	**600.9**	**92%**	**627.8**	**90%**
Council Tax	30.0	5%	36.4	5%
National Non-Domestic rates (NNDR)	19.8	3%	32.5	5%
Local government taxation revenue	**49.8**	**8%**	**68.9**	**10%**
Total taxation revenue	**650.7**	**100%**	**696.7**	**100%**

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

Total taxation revenue decreased by circa £46 billion (-6.6%) in 2020-21 mainly driven by the impact of Covid-19 on the UK economy.

The government introduced the Coronavirus Job Retention Scheme (CJRS) to cover up to 80% of employees' wages and Self-Employment Income Support Scheme (SEISS) to cover up to 80% of the average monthly trading profits for self-employed individuals. In order to limit the effect of the Covid-19 pandemic on revenue generated from **Income tax** and **National Insurance Contributions (NIC)**, these government funded amounts were subject to income tax and the primary threshold for NIC was increased.

Income tax revenue consists of Pay As You Earn (PAYE) and Self-Assessment (SA). Although unemployment rose, during the pandemic, a rise in average wages caused PAYE income to increase in 2020-21. However, this was offset by a reduction in SA revenue.

Disproportionate levels of unemployment were evident in sectors at the lower end of the pay distribution scale, such as hospitality, where NIC thresholds are higher and income tax rates are lower. As a result, the amount of NIC revenue collected in 2020-21 was £0.8 billion lower than in 2019-20. There was an overall reduction in income tax revenue generated of £2.3 billion, a 1.2% decrease from 2019-20.

Value Added Tax (VAT) is derived from the supply receipts of goods and services that generally rise over time because of economic growth and inflation. However, the Covid-19 pandemic has led to consumer spend reducing. Consequentially, sectors such as hospitality, manufacturing, arts, entertainment and recreation have been adversely impacted, and temporary reduced rates have been introduced to stimulate these sectors. The overall impact is a 11% decrease for year-on-year VAT receipts, which equates to a £15.1 billion reduction in revenue compared to 2019-20.

Corporation Tax has increased by £1.3 billion (2.5%) from 2019-20 to £53.7 billion.

Hydrocarbon Oils Duty fell by £6.0 billion, a 22% reduction from 2019-20. Analysis of the impact of Covid-19 on the oil and gas industry explains the reduction in revenue, as well as the increased fuel economy of cars and the growing popularity of electric cars.

Excise and Duty accounts for £29.9 billion, and is comprised of Alcohol, Tobacco, Vehicle, and Custom Duties. In total Excise duty increased by £0.9 billion (3.1%), unaffected by the Economic downturn.

In response to the Covid-19 pandemic, HMRC implemented a temporary rates reduction for **Stamp Duty Land Tax** on properties up to £500,000 to stimulate the economy. However, the adverse impact of Covid-19 resulted in a £3.0 billion (18.5%) decrease in revenue from 2019-20.

Capital gains tax increased by £2 billion (20%), the deadline for filing and paying Capital gains tax within 30 days of disposal came into force in April 2020 and is the major factor contributing to year-on-year movement.

Other taxes and duties of £31.0 billion comprises Inheritance Tax, Betting and Gaming duties, Air Passenger duties, Climate Change Levy, Bank Levy, Insurance Premium Tax, Landfill Tax, Lottery Income, Broadcast Licence fees and Apprenticeship Levy. Air Passenger Duty is the principal driver for year-on-year reduction for other taxes and duties, accounting for £3.4 billion decrease in duties as a result of the UK Lockdown measures in response to the Covid-19 Pandemic.

Local government taxation revenue reduced by £19.1 billion (27.7%), comprising **Council Tax** £6.4 billion and **National Non-Domestic Rates** £12.7 billion. Revenue from missing local government entities amount to £10.6 billion (55%) of the overall variance.

The reduction of £6.4 billion for Council Tax revenue in 2020-21 compared to 2019-20 was driven by missing disclosures from local government entities.

The reduction of £12.7 billion for National Non-Domestic Rates in 2020-21 compared to 2019-20 was driven by £9.6 billion of payment increases to central government, whereby a smaller proportion of retained business rates were retained by local authorities through BR pilot schemes. The impact of missing disclosures from local government entities was £3.1 billion.

Note 5. Other revenue

	2020-21 £bn	2019-20 £bn
Revenue from contracts:		
Sales of goods and services (excluding the NHS)	19.1	33.1
Levies	6.1	5.4
Court fines and penalties	0.7	0.8
Passenger transport and income from train operating companies	4.3	8.4
Other fees and charges	5.6	7.0
Rental income	7.8	9.8
EU income	2.3	8.4
License income	0.5	1.6
Revenue from contracts	**46.4**	**74.5**
NHS Income:		
Sales of goods and services	3.2	4.6
NHS fees and charges (dental, prescription and other)	1.4	1.9
Other income from the NHS	2.0	1.6
NHS Income	**6.6**	**8.1**
Other income:		
Interest income	6.4	8.2
Private sector contributions to local services	3.1	3.8
Pension income	4.6	4.2
CRC allowance sales and EU emissions trading scheme	2.2	0.5
Grants from private sector	2.0	2.4
Miscellaneous operating revenue	9.5	14.9
Other Income	**27.8**	**34.0**
Total Other Revenue	**80.8**	**116.6**

Other revenue has decreased overall by £35.8 billion in 2020-21.

The main overall reasons for this decrease are the significant impact of the Covid-19 pandemic and the related restrictions, and the impact of entities which contributed to the note's total in 2019-20 but which did not submit data in 2020-21.

The overall estimated impact on other revenue of non-submitting entities was £16.7 billion across the note. This is as an estimate of the maximum impact, based on 2019-20 actual submission totals. This estimate is likely to be overstated due to elements of the non-submitted data which would have been internal to the WGA, so would have eliminated anyway. The impact on each line is outlined below, where considered significant to that line.

The **Covid-19 pandemic** affected many WGA entities. The most significantly impacted note lines, and other factors which contributed to the decreases at note line level, where applicable, are outlined below.

Sales of goods and services had previously been largely made up of goods and services provided by local authorities (£20.2 billion out of the total of £33.1 billion in 2019-20). This figure includes a wide range of goods and services, including income from schools and adult social care provision. However, income related to this sector decreased significantly in 2020-21 to £7.4 billion.

£4.0 billion (2019-20: £5.0 billion) is goods and services provided by central government, which includes a wide range of income streams. The remaining income is from Public Corporations, including Channel 4, Scottish Water and the Post Office.

For sales of goods and services the impact of entities which did not submit any data to the WGA in 2020-21 is significant at £5.4 billion based on prior year amounts. Adjusting for this impact, the remaining year-on-year decrease on this line would be £8.6 billion.

At entity level there is no outstanding significant individual contribution to this decrease. A total of 270 entities, with year-on-year decreases between £1 million and £387 million, together contributed to an overall decrease of £6.1 billion. This helps to illustrate the fact that the decrease in income on this line was widespread and predominantly due to a common reason - the Covid-19 pandemic.

Levies of £6.1 billion (2019-20: £5.4 billion) include Capacity Market Supplier Charge income, income from the Low Carbon Contracts Company Operational Cost Levy, and the Electricity Settlements Company’s Settlement Cost Levy. Other smaller sources of levy income include the Pension Protection Fund, HM Treasury, the Bank of England, and the Department for Environment, Food and Rural Affairs (DEFRA).

Passenger transport and train operating companies’ income of £4.3 billion (2019-20: £8.4 billion) is predominantly made up of passenger income from the Department for Transport (DfT) of £2.8 billion (2019-20: £3.7 billion), and from Transport for London (TfL) of £1.3 billion (2019-20: £4.4 billion).

Passenger transport income decreased by £4.1 billion in 2020-21. Most of this decrease relates to TfL (£3.1 billion decrease) and DfT (£0.7 billion). For both entities the Covid-19 pandemic was the main cause.

For TfL, across 2020-21 there were over a billion fewer bus journeys made, a billion fewer London Underground journeys, 133 million fewer journeys made on the London Overground, and approximately 77 million fewer journeys made on the Docklands Light Railway (DLR) when compared to 2019-20.

In the case of DfT, income from train operating companies reduced from £1.0 billion in 2019-20 to £nil in 2020-21 due to the Covid-19 pandemic. Train operating companies were subsidised by DfT through Emergency Measures Agreements (EMAs) between March 2020 and September 2020, and Emergency Recovery Measures Agreements (ERMAs) from September 2020.

Rental income of £7.8 billion (2019-20: £9.8 billion) includes rents and related costs collected from local government council tenants.

The decrease on this line is also almost entirely due to the impact of non-submitting entities of £1.9 billion.

EU income was £2.3 billion in 2020-21, a decrease of £6.1 billion. This is made up of decreases reported by DEFRA of £2.8 billion, the Consolidated Fund of £2.5 billion, and the Scottish Government of £1.3 billion, partially offset by other net increases of £0.5 billion.

The decrease in DEFRA's EU Income total is as a result of a reduction in EU income reimbursement in relation to the Basic Payment Scheme following the UK's departure from the EU, with expenditure now being funded by the Exchequer or directly by the other paying agencies.

The decrease of £2.5 billion on the Consolidated Fund is due to a one-off receipt relating to a repayment of capital by the European Investment Bank (EIB) to the Consolidated Fund which was included in this note total last year in error. This has not been repeated this year. The prior year comparative figure has not been restated as this amount is not material to the WGA.

Licence income of £0.5 billion (2019-20: £1.6 billion) is largely made up of income from OFCOM. Licence Income decreased by £1.1 billion this year due to the 3G contract coming to an end on 27/04/2020. The BBC licence fee is classified as a tax in Note 4.

NHS income of £6.6 billion (2019-20: £8.1 billion) is made up of a variety of sources and decreased by a net £1.5 billion. While there were a number of individual increases and decreases in different areas, there were decreases totalling £1 billion in non-emergency areas such as private patients, dental and also education and research, which is as expected as fewer non-emergency activities were undertaken due to the Covid-19 pandemic.

Interest income of £6.4 billion (2019-20: £8.2 billion) includes interest and dividend income received from the private sector of £5.6 billion (2019-20: £7.9 billion).

Pension scheme income of £4.6 billion (2019-20: £4.2 billion) relates to employer contributions from organisations which participate in public sector pension schemes but are not themselves consolidated within the WGA boundary. Examples include GPs and charity hospices that contribute to the NHS pension scheme, and higher and further education institutions and independent teaching establishments that contributed to the Teachers' Pension Scheme. It also includes non-WGA entities such as the National Audit Office, Audit Wales and Electoral Commission that contribute to the Principal Civil Service Pension Scheme.

The impact of non-submitting entities on this line cannot be reliably estimated due to the impact of amounts which would be internal to WGA and therefore would have been eliminated on consolidation if they had been submitted. Our estimate of a maximum possible impact of £2.5 billion will be overstated due to the effect of those internal amounts and is not material to the WGA.

Miscellaneous income has decreased by £5.4 billion, from £14.9 billion in 2019-20 to £9.5 billion in 2020-21. The main cause of this decrease is the impact of entities which did not submit any data to the WGA in 2020-21. The impact of this is significant for this line at £4.4 billion, based on amounts submitted by those entities in 2019-20.

Note 6. Social security benefits

	2020-21 £bn	% of total	2019-20 £bn	% of total
State pension	103.5	40%	101.2	42%
Pension credit	5.3	2%	5.3	2%
TV licences for the over 75s	-	0%	0.3	0%
Pensioner benefits	**108.8**	**42%**	**106.8**	**44%**
Disability Living Allowance	6.9	3%	7.7	3%
Attendance allowance	6.1	3%	6.1	3%
Personal Independence Payment	16.2	6%	13.8	6%
Carer's allowance	3.6	1%	3.4	1%
Employment and Support Allowance	14.2	6%	14.5	6%
Jobseeker's Allowance	1.1	0%	0.8	0%
Income support	1.2	1%	1.5	1%
Statutory sick pay and maternity pay	2.7	1%	2.2	1%
Universal Credit	38.9	15%	18.4	8%
Other working age benefits	1.2	0%	1.2	0%
Tax credits	25.8	10%	28.3	12%
Child Benefit	11.5	4%	11.5	5%
Housing Benefit	15.5	6%	21.8	9%
Miscellaneous benefits	4.7	2%	2.0	1%
Disability, working and other benefits	**149.6**	**58%**	**133.2**	**56%**
Total social security benefits	**258.4**	**100%**	**240.0**	**100%**

The State Pension (including the 'new State Pension'), at £103.5 billion, is the largest benefit paid, and accounted for 40% of benefit spending in 2020-21. State Pension expenditure increased by £2.3 billion. The increase reflects that the costs of the "triple lock" are greater than the cost reductions, from the equalisation of pension age for men and women and raising of the state pension age to 68.

Disability, working and other benefits increased by £16.4 billion (12.3%). Most of this increase relates to Universal Credit (increase of £20.5 billion), primarily due to increased caseloads from 3 million in March 2020 to 5.9 million in December 2020, due to the Covid-19 pandemic, and the migration from other working age benefits. Universal Credit replaces Employment and Support Allowance, Jobseeker's Allowance, Income Support, Housing Benefit, Child Tax Credit and Working Tax Credit meaning that the number of people claiming these benefits and tax credits are falling. However, some non-working age and non-income related claimants will remain on their existing benefits.

Other notable increases include Personal Independence Payments of £2.4 billion due to increased caseloads of claimants migrating from other benefits (for example, Disability Living Allowance).

Notable decreases include tax credits of £2.5 billion due to the migration of claimants to Universal Credit-based benefits from Child Tax credits, and Housing Benefit of £6.3 billion primarily due to entities who have not submitted returns in 2020-21 but did submit returns in 2019-20.

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

	2020-21 £bn	2019-20 £bn
Income-related Employment and support allowance	14.2	14.5
Income-related Jobseeker's allowance	1.1	0.8
Housing benefit for working age claimants	15.5	21.8
Income support	1.2	1.5
Working tax credit	3.2	3.2
Child tax credit	11.9	15.1
Total benefits (that are being transferred to UC)[27]	**47.1**	**56.9**
Current Universal Credit expenditure	38.9	18.4

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

Note 7. Staff costs

	Permanently employed staff £bn	Others £bn	2020-21 Total £bn	2019-20 Total £bn
Salaries and wages	157.9	13.1	171.0	168.2
Pension scheme costs: current service costs (net of employees' contributions)	78.5	-	78.5	66.6
Pension scheme costs: past service costs	0.4	-	0.4	(0.6)
Pension scheme costs: losses on settlements and curtailments	-	-	-	(0.6)
Expenditure on external pension schemes	3.6	-	3.6	1.7
Total staff costs	**240.4**	**13.1**	**253.5**	**235.3**

Overall staff costs rose £18.2 billion in 2020-21, an increase of 7.7%.

Overall **Pension scheme costs** increased by £15.4 billion in total, to £82.5 billion. These costs included expenses such as current service costs, past service costs, enhancements, gains or losses on settlements and curtailments. Further details are included in Note 24.

Salaries and wages increased by £2.8 billion to £171.0 billion, an increase of 2% on the prior year. This offsets a decrease of £8.4 billion due to bodies which submitted consolidation data in 2019-20 but not 2020-21 (see Note 1 for details) with an increase of £11.6 billion from bodies which submitted in both years. This was largely driven by a £6.3 billion increase in salaries and wages at the Department for Health and Social Care, where staff numbers increased to meet the challenge of Covid-19. The remaining growth in staff costs was driven by smaller increases across academies, central government and the devolved administrations. A split of staff costs by sector between central government, local government and public corporations can be found in the segmental analysis in Note 3.

Average number of persons employed (Full time equivalent)

	Permanently employed staff	Others	2020-21 Total	2019-20 Total
Health sector	1,666,375	-	1,666,375	1,578,671
Academy schools	521,736	-	521,736	503,447
Northern Ireland and Scotland FE colleges	14,748	-	14,748	14,802
Other	647,445	236,872	884,317	858,146
Total Central government (including health)	**2,850,304**	**236,872**	**3,087,176**	**2,955,066**
Local government	1,102,174	36,474	1,138,648	1,439,881
Public corporations	80,772	30,501	111,273	117,162
Total	**4,033,250**	**303,847**	**4,337,097**	**4,512,109**

In addition to permanently employed staff, 'other' includes ministers, special advisers, temporary and contract staff. The cost of the salaries of ministers was £5.7 million (2019-20: £5.0 million) and the cost of special advisers was £9.2 million (2019-20: £10.7 million). The ministerial salary only includes the additional element on top of the basic salary of an MP.

Civil service and other compensation schemes - exit packages

Exit package cost band 2020-21 for central government and public corporations

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	1,996	3,706	5,702	-
£10,000-£50,000	1,573	3,831	5,404	0.1
£50,000-£100,000	229	1,420	1,649	0.1
>£100,000	119	341	460	0.1
Total	**3,917**	**9,298**	**13,215**	**0.3**

<£10,000 consists of £23.8m in total costs which has been rounded down to £0.0bn.

Exit package cost band 2020-21 for local government

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£40,000	2,503	5,849	8,352	0.1
£40,000-£60,000	124	516	640	-
£60,000-£100,000	97	392	489	-
>£100,000	99	244	343	0.1
Total	**2,823**	**7,001**	**9,824**	**0.2**

£40,000-£60,000 consists of £29.2m in total costs which has been rounded down to £0.0bn.£60,000-£100,000 consists of £36.4m in total costs which has been rounded down to £0.0bn.

Exit package cost band 2019-20 for central government and public corporations

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

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

Exit package cost band 2019-20 for local government

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

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

Note 8. Purchase of goods, services and other expenditure

	2020-21 £bn	2019-20 £bn
Central government:		
Department of Health and Social Care	89.2	66.1
Ministry of Defence	17.0	15.9
Academies	5.8	5.8
Scottish Government	7.0	6.7
Department for Transport	4.9	4.1
Welsh Government	5.1	3.8
Ministry of Justice	3.5	3.3
Home Office	2.9	2.5
Department for Education	1.9	2.1
Department for Business, Energy & Industrial Strategy	3.4	3.7
Other	18.8	18.2
Total Central government	**159.5**	**132.2**
Local government	**71.0**	**82.4**
Public Corporations:		
British Broadcasting Corporation	2.7	3.0
Other	5.5	6.0
Total Public Corporations	**8.2**	**9.0**
Total purchases of goods, services and other expenditure	**238.7**	**223.6**

Total purchases of goods, services and other expenditure increased by £15.1 billion (6.8%) in 2020-21.

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

	2020-21 £bn	2019-20 £bn
Facilities costs	6.0	8.1
Accommodation costs	11.8	10.0
Medical goods and services	65.5	52.1
ICT outsourcing and support	5.3	4.9
Travel costs	2.9	3.8
Other goods and services	55.3	60.7
Other expenses	62.2	52.9
Rental and PFI costs	8.1	8.0
Audit costs	0.2	0.2
Loss on disposal of assets	1.4	2.3

Total central government balances increased by £27.3 billion (20.7%) in 2020-21. The increase is mainly due to expenditure on the provision of healthcare services by the Department of Health and Social Care in response to the Covid-19 pandemic of £23.1 billion, in particular the provision of vaccines and personal protective equipment (PPE). This also accounts for the large increases in medical goods and services and other expenses categories shown in the table above.

There was a further increase of £1.3 billion by the Welsh Government to support the economy and provision of public and health services in response to the pandemic.

Other notable increases include £1.1 billion by the Ministry of Defence in respect of increased contract expenditure, IT costs, equipment support and accommodation costs. There was also a decrease in travel costs due to the pandemic of £0.9 billion.

Local government balances decreased by £11.4 billion (13.9%) in 2020-21 primarily due to a number of local government entities who have not submitted data for WGA in 2020-21, resulting in a decrease of £16.0 billion for entities who submitted a return in 2019-20, and an increase of £4.6 billion for entities who submitted returns in both years. Further detail is provided in Note 1.

Total public corporation balances decreased by £0.8 billion (8.9%) in 2020-21, of which £0.3 billion relates to programme expenditure incurred by the BBC.

Note 9. Grants and subsidies

	2020-21 £bn	2019-20 £bn
Capital grants	11.2	7.5
Current grants	169.4	37.6
EU grants	14.7	17.0
Other grants	1.9	0.1
Total grants and subsidies	**197.2**	**62.2**

There was a significant increase in grants and subsidies in 2020-21 of £135 billion, largely due to the issuing of a range of additional current grants in response to the Covid-19 pandemic. Further detail on the main grant areas is provided below.

Entity	Grant	2020-21 £bn	2019-20 £bn
Department for Business, Energy and Industrial Strategy	**Current grants to private sector** The increase in grants is due to the launch of Covid-19 support to businesses through several new grant schemes. These included the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF) as part of the Covid-19 Business Support Grants.	15.1	8.2
HM Revenue & Customs	**Current grants to private sector** The increase in grants is due to HMRC playing a significant role in implementing the government's response to the Covid-19 pandemic. During the year, HMRC made grant payments to businesses and individuals at a cost of circa £80 billion. Examples of these grants include the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme.	81.4	0.1
Department for Education	**Current grants to private sector** Department for Education (DfE) administer further and higher	7.8	7.8

	education grants to colleges and universities. This covers activities such as college condition improvement, post-16 capacity funding and Skills Teach Grant.		
Foreign, Commonwealth and Development Office	**Current grants to private sector** In September 2020, Department for International Development and the Foreign and Commonwealth Office merged to form the Foreign, Commonwealth and Development Office (FCDO). Grants administered by FCDO comprise of a variety of programmes including debt relief payments and joint programme contributions.	7.5	7.0
Department for Transport	**Current grants to private sector** The increase in Department for Transport (DfT) grants in 2020-21 was primarily driven by its Covid-19 response. Grants include new emergency support funding and exceptional increases in pre-existing grants and subsidies to rail operators.	9.9	1.6
Consolidated Fund	**EU grants** EU grants and subsidies relate to projects which have been approved and funded by the EU but are administered by government, such as agricultural support, maritime and fisheries, and funding by region. The Consolidated Fund administers the UK's contribution to the EU budget, which varies from year to year as a result of various factors. For example, variation in UK receipts from the EU budget and consequent fluctuations in the UK abatement.	11.8	12.5

Note 10. Depreciation and impairment

	Note	2020-21 £bn	2019-20 £bn
Depreciation of property, plant and equipment	12	30.6	31.9
Amortisation of intangible assets	14	3.8	3.7
Impairments and revaluations		27.5	15.9
Total depreciation and impairment		**61.9**	**51.5**

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

Impairments increased by £11.6 billion in 2020-21 of which £10.8 billion relates to Department of Health and Social Care (DHSC). The increase is driven by inventory impairment losses during the Covid-19 pandemic. There was a need to secure personal protective equipment (PPE), test and trace consumables, ventilators, and other equipment at a time of global shortage. Further information is contained within the DHSC Annual Report and Accounts 2020-21 Notes 8 and 12.

Note 11. Finance expense

	2020-21 £bn	2019-20 £bn
Gilts	18.9	28.5
National Savings and Investment products	2.2	2.5
Treasury bills	0.1	0.7
Bank deposits and other	-	0.1
Total interest costs on government borrowing	**21.2**	**31.8**

Interest costs on government borrowing

In 2020-21, interest costs on government borrowings have decreased by £10.6 billion (33%) to £21.2 billion. This is largely attributed to a £9.6 billion decrease in interest on gilts.

	Note	2020-21 £bn	2019-20 £bn
Pension financing costs	24	44.2	61.9
Provision financing costs	22	4.0	(8.2)
Other finance expense		7.5	12.3
Total financing costs of long-term liabilities		**55.7**	**66.0**

Financing costs of long-term liabilities

Pension financing costs have decreased by £17.7 billion (29%) in 2020-21. The variance is primarily due to a decrease in the expense cost for the National Health Service Pension Scheme (£3.7 billion), the Teachers' Pension Scheme (England & Wales) (£2.6 billion), Civil Superannuation (£1.8 billion) and Armed Forces Retired Pay Pensions (£1.5 billion). The variance is due to a change in actuarial assumptions. Further details can be found in Note 24.

Provisions financing includes the impact of changes of discount rates for provisions. In 2019-20, there was a decrease in long term discount rates that led to provisions increasing. The Treasury changed policy on the selection of long-term discount rates for 2020-21, allowing discount rates for longer term provisions to be selected individually. Further details can be found in Note 22.

Other finance expense mostly consists of interest payable to the private sector and has decreased by £4.8 billion (39%). This was largely driven by a reduction in the Non-Private Finance Initiative (PFI) finance leases within Bank of England of £0.8 billion (2019-20: £3.7 billion).

Note 12. Property, plant and equipment

Property, plant and equipment 2020-21

	Infrastructure assets	Land and buildings	Assets under construction	Military equipment	Other assets	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Cost or valuation:						
At 1 April 2020	916.8	512.3	76.5	85.8	120.9	1,712.3
Boundary adjustment	(19.3)	(63.0)	(2.2)	-	(8.5)	(93.0)
Additions	13.8	8.9	28.4	0.5	6.2	57.8
Revaluations	6.7	8.5	0.1	1.6	1.0	17.9
Impairments	(0.1)	(8.5)	(0.7)	(3.4)	(2.0)	(14.7)
Reclassifications and transfers	0.8	9.3	(13.8)	1.4	1.6	(0.7)
Disposals	(0.8)	(4.4)	(0.4)	(2.0)	(3.6)	(11.2)
At 31 March 2021	**917.9**	**463.1**	**87.9**	**83.9**	**115.6**	**1,668.4**
Depreciation:						
At 1 April 2020	(240.9)	(53.1)	-	(44.5)	(60.5)	(399.0)
Boundary adjustment	5.8	3.0	-	-	2.7	11.5
Charged in year	(10.3)	(10.7)	-	(2.9)	(6.7)	(30.6)
Revaluations	3.3	4.3	-	(0.8)	0.2	7.0
Impairments	-	0.4	-	2.8	1.1	4.3
Reclassifications and transfers	0.2	0.4	-	0.5	0.3	1.4
Disposals	0.7	1.9	-	1.6	3.1	7.3
At 31 March 2021	**(241.2)**	**(53.8)**	**-**	**(43.3)**	**(59.8)**	**(398.1)**
Carrying amount at 31 March 2020	675.9	459.2	76.5	41.3	60.4	1,313.3
Carrying amount at 31 March 2021	**676.7**	**409.3**	**87.9**	**40.6**	**55.8**	**1,270.3**

Asset financing:						
Owned	645.5	367.0	87.7	40.6	50.2	1,191.0
Finance leased	-	12.7	0.1	-	0.2	13.0
On balance sheet PFI contracts	31.2	29.6	0.1	-	5.4	66.3
Carrying amount at 31 March 2021	**676.7**	**409.3**	**87.9**	**40.6**	**55.8**	**1,270.3**

Infrastructure assets include the following:

	2020-21 £bn	2019-20 £bn
Railway network as reported by the Department for Transport and managed by Network Rail	336.8	332.3
Strategic road network assets as reported by the Department for Transport and managed by Highways England	134.6	128.5
Road network assets held by the Scottish Government	20.8	20.9
Networked assets held by Scottish Water	64.8	63.1
Infrastructure assets held by the Department for Infrastructure – Northern Ireland	28.5	28.4
Networked assets held by the Welsh Government	19.8	19.6
Networked assets held by local authorities	63.8	75.1
Networked assets held by Transport for London (included in local authorities total above)	19.1	19.0

The value of infrastructure assets has increased by £0.8 billion in total during 2020-21. This reflects an increase of £21.3 billion from new additions, indexation adjustments and the completion of assets under construction which included investments in the rail and road networks by the Department for Transport and investment in transport infrastructure by Transport for London. Set against this is a decrease of £13.2 billion due to entities which contributed to the 2019-20 total but did not submit data for consolidation in 2020-21. Further information on the valuation of infrastructure assets is included in the critical accounting estimates and judgements in Note 2.4. The main contributor to the balance of infrastructure assets held under PFI contracts is the strategic road network. Further details can be found in

Note 5 of the Department for Transport's 2020-21 annual report and accounts.

Land and Buildings has decreased by £49.9 billion during 2020-21 reflecting the impact of entities which contributed to the 2019-20 total but which did not submit data to WGA in 2020-21.

Other assets consist of:

	Plant and machinery	Transport equipment	IT equipment	Furniture, fittings and other	Total other assets
	£bn	£bn	£bn	£bn	£bn
Carrying amount as at 31 March 2020	19.2	15.3	5.3	20.6	60.4
Carrying amount as at 31 March 2021	18.8	13.8	5.7	17.5	55.8

Some heritage assets are not recognised on the Statement of Financial Position or in this note, as the costs of valuing these unique assets are not commensurate with the benefits. Many of these assets are held by the Department for Digital, Culture, Media & Sport (DCMS) and its arm's length bodies. For details see Note 8 of the DCMS Annual Report and Accounts 2020-21.

Reclassifications and transfers include assets reclassified from assets under construction to other types of assets and transfers to and from intangible assets. Of the £14.2 billion outflow (including disposals) from assets under construction, £3.6 billion (2019-20: £6.9 billion) relates to the Ministry of Defence. For details see Note 6 of the Ministry of Defence Annual Report and Accounts 2020-21.

A new **boundary adjustment** line is in relation to entities that submitted a return for 2019-20 but not 2020-21. Further information can be found within Note 1.3.

Property, plant and equipment 2019-20

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

Asset financing:						
Owned	666.0	414.1	76.4	41.3	56.2	1,254.0
Finance leased	-	12.2	-	-	0.3	12.5
On balance sheet PFI contracts	9.9	32.9	0.1	-	3.9	46.8
Carrying amount at 31 March 2020	**675.9**	**459.2**	**76.5**	**41.3**	**60.4**	**1,313.3**

Note 13. Investment properties

	2020-21 £bn	2019-20 £bn
As at 1 April 2020	24.1	22.9
Boundary adjustment	(7.5)	-
Additions	0.8	1.1
Revaluations and impairments	(0.5)	0.4
Disposals	(0.4)	(0.3)
As at 31 March 2021	**16.5**	**24.1**

Investment properties are comprised mainly of land and buildings owned by local authorities. They provide rental income for the funding of services, as part of a financial strategy to minimize the use of general reserves to meet ongoing expenditure. Of the £16.5 billion total balance, £15.7 billion (2019-20: £22.9 billion) sits within the local government sector.

There were a number of entities which contributed to the note total in 2019-20, but which did not make submissions to the WGA this year. This accounts for the reduction in balances overall and is shown in the "Boundary adjustment" line above.

Note 14. Intangible assets

Intangible assets 2020-21

	Military equipment	Development expenditure	Software	Licences and other	Total
	£bn	£bn	£bn	£bn	£bn
Cost or valuation:					
At 1 April 2020	37.8	13.5	11.3	12.6	75.2
Boundary Adjustment	(0.2)	0.3	(0.1)	(1.0)	(1.0)
Additions	2.1	1.3	0.9	1.5	5.8
Revaluations and impairments	(0.2)	(0.1)	0.2	-	(0.1)
Reclassifications and transfers	(0.5)	(1.0)	0.9	0.2	(0.4)
Disposals	(1.0)	(0.2)	(0.7)	(0.8)	(2.7)
At 31 March 2021	**38.0**	**13.8**	**12.5**	**12.5**	**76.8**
Amortisation:					
At 1 April 2020	(12.1)	(6.7)	(7.7)	(8.5)	(35.0)
Boundary Adjustment	-	0.1	(0.1)	0.7	0.7
Charged in year	(1.0)	(0.5)	(1.2)	(1.1)	(3.8)
Revaluations and impairments	0.2	0.1	(0.2)	-	0.1
Reclassifications and transfers	-	-	(0.1)	0.1	-
Disposals	0.5	0.1	0.7	0.9	2.2
At 31 March 2021	**(12.4)**	**(6.9)**	**(8.6)**	**(7.9)**	**(35.8)**
Carrying amount at 31 March 2020	25.7	6.8	3.6	4.1	40.2
Carrying amount at 31 March 2021	**25.6**	**6.9**	**3.9**	**4.6**	**41.0**

Intangible assets have increased by 2% (£0.8 billion) from £40.2 billion in 2019-20 to £41.0 billion in 2020-21. This is driven by movements in Licences and other which has increased by £0.5 billion. The military equipment balance relates to assets held within the Ministry of Defence, and is made up of Single Use Military Equipment and Assets

Under Construction (AUC) as per the Ministry of Defence published accounts (see Note 5 of Ministry of Defence 20-21 accounts).

There were a number of entities which contributed to the note total in 2019-20, but which did not provide submissions to the WGA this year. This is shown in the "Boundary Adjustment" lines above.

Intangible assets 2019-20

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

Note 15. Trade and other receivables

	2020-21 £bn	2019-20 £bn
Non-current:		
Taxation and duties due	4.5	5.5
Trade receivables	1.5	2.0
Other receivables	9.2	9.4
EU receivables	3.7	3.9
Prepayments and accrued revenue	1.4	1.6
Welfare overpayments	2.5	2.3
Contract assets	1.6	1.7
Total before impairment	24.4	26.4
Less: provision for impairment of receivables	(3.8)	(4.1)
Total non-current trade and other receivables	**20.6**	**22.3**
Current:		
Accrued tax revenue receivable	94.4	101.6
Taxation and duties receivable	65.4	35.5
Trade receivables	10.4	11.8
Other receivables	18.2	13.0
Prepayments and accrued revenue	14.3	13.6
Welfare overpayments	0.4	0.3
Court fines	3.6	3.4
Contract assets	3.5	3.7
Total before impairment	210.2	182.9
Less: provision for impairment of receivables	(27.9)	(23.2)
Total current trade and other receivables	**182.3**	**159.7**
Total trade and other receivables	**202.9**	**182.0**

Non-current

The £1.7 billion decrease in total non-current receivables is driven by a number of entities which submitted consolidation data for 2019-20 but not in 2020-21. Looking only at entities which submitted in both years, total non-current receivables has increased by £4.0 billion, substantially driven by a £4.1 billion increase to other receivables.

Current

The £22.6 billion increase in total current receivables is the result of significant increases in some areas (taxation and duties receivable, other receivables) being offset by a lack of 2020-21 consolidation data for a number of entities which submitted data for 2019-20. Looking only at entities which submitted in both years, total current receivables has increased by £31.7 billion. Key areas of difference are current trade receivables, where the £1.4 billion decrease is substantially due to data not received in 2020-21 but which entities submitted in 2019-20, and other current receivables, which increased by £7.7 billion when only looking at entities which submitted for both years.

Accrued tax revenue receivable represents amounts of taxes and duties relating to 2020-21 that were not yet due or received from taxpayers at year end, where these have not been included in taxation and duties due and collection is reasonably certain. This figure is an estimated valuation, supported by tax returns received after the year end.

Taxation and duties receivable represents all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received by HMRC. The VAT payment deferral scheme introduced in response to the Covid-19 pandemic has driven much of the increase in this figure (£22.1 billion).

The provision for impairment of receivables is analysed below:

	Current £bn	Non-current £bn	2020-21 £bn	2019-20 £bn
Taxation and duties due	17.0	1.5	18.5	14.1
Welfare payments	0.4	2.0	2.4	2.0
Court fines	3.1	-	3.1	2.8
Other trade and other receivables	7.4	0.3	7.7	8.4
Total provision for impairment of receivables	**27.9**	**3.8**	**31.7**	**27.3**

Note 16. Other financial assets

	2020-21 £bn	2019-20 £bn
Non-current:		
Loans and deposits	152.3	126.0
Student loans	84.7	76.5
Equity investments	44.0	36.1
IMF quota subscription	20.8	22.3
Derivatives and other financial assets	39.0	38.3
Total non-current other financial assets	**340.8**	**299.2**
Current:		
Debt securities	129.0	118.1
Loans and deposits	100.7	71.8
Student loans	3.1	2.6
Equity investments	0.8	1.0
IMF Special drawing rights	12.4	12.9
Derivatives and other financial assets	18.9	10.6
Total current other financial assets	**264.9**	**217.0**
Total other financial assets	**605.7**	**516.2**

Non-current Loans and deposits increased by £26.3 billion partly due to the New Term Funding Scheme (TFS). In March 2020, the Bank of England's Policy Committees announced a comprehensive package of measures to help UK businesses and households manage the economic disruption caused by Covid-19. Part of this package involved the launch of the Term Funding Scheme with additional incentives for SMEs (TFSME) and up take was £75.4 billion. The existing TFS Loan (cash made to eligible participants financed by issuance of central bank reserves secured against eligible collateral) fell by £67.7 billion to £39.5 billion (2019-20: £107.2 billion). The majority of the remaining balance relates to a £13.3 billion increase in loans advanced by the Public Loans Board.

Current loans and deposits increased by £28.9 billion during 2020-21, due to an increase of £31.5 billion in reverse sale and repurchase agreements held within the Debt Management Account; these agreements are funds advanced to banks under reverse repurchase agreements, where securities are held as collateral and returned when the funds are repaid.

Loans and deposits comprise:

	Non-current £bn	Current £bn	2020-21 £bn	2019-20 £bn
Loans	149.7	3.7	153.4	127.1
Deposits	2.6	11.1	13.7	13.5
Repurchase agreements	-	85.9	85.9	57.2
Total loans and deposits	**152.3**	**100.7**	**253.0**	**197.8**

Loans previously included mortgage loans provided by UK Asset Resolution Limited (UKAR). In 2019-20 the carrying amount was £4.7 billion. UKAR has no further commitments to extend credit to customers.

Deposits include those made by local government at commercial banks of £12.4 billion (2019-20: £12.0 billion).

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

Student loans. A summary of changes for 2020-21 is shown below:

	2020-21 £bn	2019-20 £bn
As at 1 April	79.1	76.9
New loans issued (net of impairment)	20.9	18.9
Repayments	(2.9)	(2.4)
Fair value movement	(9.2)	(14.3)
Impairment adjustments	(0.1)	-
Fair value movement as at 31 March	**87.8**	**79.1**

Student Loans have increased by £8.7 billion of which £8.2 billion is for post 2012 loans to full time undergraduates. Under IFRS 9, student loans are recognised at fair value. In determining the fair value of student loans, a discounted cash flow model has been used (see table below) which includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is recognised in the statement of revenue and expenditure and the Department for Education's statement of comprehensive net expenditure.

	2020-21 £bn	2019-20 £bn
Deferral of the difference in fair value and amount advanced to students on new loans	(9.8)	(8.9)
Changes made to student loan valuation model	0.6	(7.2)
Interest	1.5	1.7
Operational costs	(0.1)	(0.2)
Other fair value movement	(1.4)	0.3
As at 31 March	**(9.2)**	**(14.3)**

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

	2020-21 £bn	2019-20 £bn
NatWest (formerly RBS)	13.6	8.5
Other	31.2	28.6
Total equity investments	**44.8**	**37.1**

Equity investments has risen to £44.8 billion (2019-20: £37.1 billion) of which £5.1 billion is due to the rise in the value of NatWest (formerly Royal Bank of Scotland) ordinary shares. On 19 March 2021 HM Treasury sold back £590m of its ordinary shares for 190.5 pence per share (fair value of the holding of £1.1 billion) in accordance with the Directed Buyback Contract between HM Treasury and the NatWest Group. The shareholding of HM Treasury has reduced from 7,509 million shares, approximately 61.7% of the ordinary share holding of NatWest Group, to 6,919 million shares, approximately 59.8 % of the ordinary share capital.

The three largest contributors to 'Other' equity include: Foreign and Commonwealth Development Office (created by a Machinery of Government change amalgamating the Foreign and Commonwealth office and the Department for International Development) investment portfolio £3.7 billion (2019-20: £5.2 billion), Pension Protection Fund £6.1 billion (2019-20: £4.4 billion) and Commonwealth Development Corporation equity investment which is unchanged at £3.9 billion.

The IMF quota subscription and Special Drawing Rights (SDRs) relate to the UK's investments in the IMF. On becoming a member of IMF in 1944, the UK was required to pay a quota subscription to the IMF in a mixture of SDRs, the IMF's unit of account, and other widely accepted currencies. The UK's quota subscription of 20.2 billion SDRs was equivalent to £20.8 billion at 31 March 2021, a decrease of £1.5 billion compared to the prior year.

The increase in **debt securities** primarily relates to securities issue or guaranteed by the governments of the United States, Euro-area and Japan, which are used to manage the government's foreign currency reserves. The increase in debt securities of £10.9 billion during the year is primarily due to increase in the Corporate Bond Purchase Scheme – sterling dominated bonds issued to companies where they make a material contribution to the economy activity in the UK.

Note 17. Inventories

	Raw materials and consumables	Other	2020-21 Total	2019-20 Total
	£bn	£bn	£bn	£bn
As at 1 April	6.6	4.0	10.6	9.7
Boundary adjustment	(0.1)	-	(0.1)	-
Additions	32.3	4.5	36.8	17.0
Disposals/Consumed	(18.6)	(3.8)	(22.4)	(16.0)
Write on / (offs)	(9.2)	(0.1)	(9.3)	-
Revaluation and reclassification	(0.2)	(0.1)	(0.3)	(0.1)
As at 31 March	**10.8**	**4.5**	**15.3**	**10.6**

The majority of raw materials and consumables are held by two government departments: Department of Health and Social Care (DHSC) and the Ministry of Defence (MoD). DHSC inventories of £5.6 billion (2019-20: £1.5 billion) are mainly in relation to consumables, as a result of the Covid-19 pandemic. This included a significant increase in Personal Protective Equipment (PPE), launching NHS Test and Trace and purchasing other Covid-19 consumables. The MoD figure of £3.7 billion (2019-20: £3.8 billion) mainly consists of engineering and technical stock (£2.3 billion) and munitions (£0.9 billion). Write offs totalled £9.3bn (2019-20: £0) made up of mainly of DHSC impairments.

There is an increase in Disposals/Consumed £22.4bn (2019-20: £16.0bn) as a result of the covid pandemic

Other inventories of £4.5 billion relate to a wide range of different stocks and supplies across the public sector. The largest component is Department for Levelling Up, Housing and Communities'[28] property and development land assets of £1.4 billion. Other organisations with large inventories include the Department for Transport (DfT) and the British Broadcasting Corporation (BBC). DfT held inventories of £1.0 billion, with the majority being properties acquired under the HS2 exceptional hardship and related schemes. The BBC held inventories of £1.0 billion, mainly consisting of programme-related assets.

There were number of entities which contributed to the note total in 2019-20, but which did not make submissions to the WGA this year. This is shown in the "Boundary adjustment" line above.

Note 18. Cash and cash equivalents

	2020-21 £bn	2019-20 £bn
Balance at 1 April	37.6	44.2
Boundary adjustment	(3.4)	-
Change in cash and cash equivalent balances	5.4	(6.6)
Balance at 31 March	**39.6**	**37.6**
The following balances at 31 March were held at:		
Government Banking Service	(8.2)	(4.4)
Commercial banks and cash in hand	18.0	19.9
Short term investments	29.8	22.1
Balance at 31 March	**39.6**	**37.6**

Overall, Cash and Cash Equivalents increased by £2.0 billion (5.3%) to £39.6 billion (2019-20: £37.6 billion). Cash held by Commercial banks decreased by £1.9 billion (9.5%) to £18.0 billion, due to the ongoing impact of the Covid-19 pandemic affecting the cash position of public entities as public spending continued to increase. There was a £7.7 billion (35%) increase in short-term investments held by a range of

[28] During 2020-21, the Department for Levelling Up, Housing and Communities was called Ministry of Housing, Communities and Local Government

public sector bodies including local government, the National Loans Fund, and the Bank of England which can be attributed to an increase in cash deposits as National Savings and Investment products (NS&I) were viewed more favourably by investors due to the reduced base rate.

Cash held at the Government Banking Service shows a balance of - £8.2 billion (2019-20: -£4.4 billion). This consists of positive balances held by government departments as part of the Government Banking Scheme, offset by a negative balance of £61.3 billion (2019-20: £25.2 billion) held by the National Loans Fund. The overall balance is negative due to the way that government undertakes cash management.

The boundary adjustment relates to the movement in cash balances due to entities that submitted a DCT Return in 2019-20 but did not submit in 2020-21. The change in cash and cash equivalents has been grossed up by £3.4 billion from £2.0 billion shown in the cash flow statement to show the movement in cash balances excluding the missing entities.

Note 19. Trade and other payables

	2020-21 £bn	2019-20 £bn
Non-current:		
Trade and other payables	5.6	5.6
Accruals and deferred income	10.2	10.9
Imputed finance lease element of on-balance sheet PFI contracts	31.0	35.0
Obligations under finance leases	3.5	4.7
Contract liabilities	1.7	1.7
Total non-current trade and other payables	**52.0**	**57.9**
Current:		
Trade and other payables	38.8	49.7
Accruals and deferred income	71.0	55.5
Refunds of taxation and duties payable	55.3	33.8
Imputed finance lease element of on-balance sheet PFI contracts	1.6	1.7
Obligations under finance leases	0.2	0.3
Contract liabilities	2.4	2.2
Total current trade and other payables	**169.3**	**143.2**
Total trade and other payables	**221.3**	**201.1**

Trade and other payables, accruals, and **deferred income** are held across a wide range of public sector entities and relate to both day-to-day business delivery costs and other financial obligations.

Refunds of taxation and other duties payable relates mainly to council tax and business rates owed to the taxpayer, amounts due to VAT traders where their claim was received after the end of the year and amounts in respect of Corporation Tax, Income Tax and other small taxes expected to be repayable by HMRC pending finalisation of taxpayer liabilities.

Contract liabilities are recognised where an entity has received consideration from a customer prior to the transfer of goods and services. The largest balance of contract liabilities are the sums received on account by the Nuclear Decommissioning Authority relating to income from long term contracts. This accounts for £2.0 billion of the overall total(2019-20: £2.0 billion).

Further information on **obligations under finance leases** can be found in Note 26, while further information on PFI commitments can be found in Note 27.

There has been a significant year-on-year increase of £20.2 billion. This increase has been shared across a large number of WGA entities, due mainly to the impact of the Covid-19 pandemic.

£9.5 billion of the increase relates to the Department of Health and Social Care (DHSC). While the impact of the Covid-19 pandemic was widely felt across the WGA, its impact on DHSC was most significant. The percentage increase in the DHSC contribution to this note (33%) is in line with their increase in net operating expenditure for 2020-21 (33%).

A further £6.0 billion of this increase relates to HMRC, made up of an increase of £3.6 billion in the HMRC Taxes and Duties statutory accounts, and £2.4 billion in the separate HMRC Trust Statement accounts.

There were also a number of entities which contributed to the note total in 2019-20, but which did not make submissions to the WGA this year. These entities contributed a total of £11.2 billion to this note's total last year.

Note 20. Government borrowings

	2020-21 £bn	2019-20 £bn
Non-Current:		
Gilts	1,246.3	1,100.7
Total non-current government borrowings	**1,246.3**	**1,100.7**
Current:		
National Savings and Investment products (NS&I)	202.9	179.2
Treasury bills	52.6	83.7
Gilts	18.5	81.8
Total current government borrowings	**274.0**	**344.7**
Total government borrowings	**1,520.3**	**1,445.4**

The government borrows to make up the shortfall between income and expenditure (including any capital expenditure). The National Accounts show a clearer picture of government borrowing used for the financing of deficits, and more detail on this can be found in Chapter 1.

NS&I products are a range of secure savings and investments offered to the public, that are backed by the Exchequer. They provide the government with a source for financing public spending. Further details of these products, and NS&I's 2020-21 accounts, can be found on the NS&I website.

There has been a significant year-on-year increase of £23.7 billion in NS&I balances, with the 2020-21 balance being £202.9 billion (2019-20: £179.2 billion). In 2020-21 £86.2 billion was received from investors (2019-20: £38.2 billion), whilst payments to investors during the financial year totalled £64.6 billion (2019-20: £29.2 billion). This results from significant increases in customer investment in NS&I products, inflows principally from Premium Bonds and Direct Saver accounts.

Treasury bills are issued by the Debt Management Office (DMO) and, along with other money market operations, are used by the DMO to meet the government's daily cash. For 2020-21, the carrying value of Treasury bills in issue was £52.6 billion, (2019-20: £83.7 Billion). The change of £31.1 billion in Treasury bills issued was planned for the DMO to meet its debt and cash management remit for 2020-21. Further details on these operations can be found in the Debt Management Report 2020-21.

Gilts are UK government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Price Index. As the government's debt manager, the DMO sells gilts to the market to ensure sufficient funding is available to meet the government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, with the exception of gilts held by funded public sector pension schemes.

The reason gilts held by funded public sector pensions schemes are not eliminated on consolidation is because funded public sector schemes are disclosed in the WGA as a single net liability figure. IAS 19 Employee Benefits states that plan assets exclude non-transferable financial instruments issued; therefore, it is permissible to include gilts and other transferable financial instruments issued. Further information regarding funded public sector pension schemes is provided in Note 24 Public Sector Pensions. Further details regarding gilts are available in the 2020-21 Debt management report and the 2020-21 accounts of the National Loans Fund.

The government sought to meet the additional financing requirements necessitated by the periods of disruption caused by Covid-19, through its normal debt management operations, as a result the proportion of non-current gilts in issuance increased as government borrowing via gilt-edged stock increased. .. During this period, the Bank of England used quantitative easing, a monetary policy tool to boost spending and investment in the economy.

Further information on the government's financial risk, including liquidity and funding risk, is included in note 23.

Note 21. Other financial liabilities

	2020-21 £bn	2019-20 £bn
Non-current:		
Deposits by banks	2.3	4.0
Bank and other borrowings	69.8	69.8
Debt securities	1.4	3.2
Derivatives	24.7	26.7
Financial guarantees	0.5	0.4
Other financial liabilities	76.8	1.0
Total non-current other financial liabilities	**175.5**	**105.1**
Current:		
Deposits by banks	812.6	555.6
Banknotes in circulation	84.7	74.4
Bank and other borrowings	10.1	7.8
IMF Special Drawing Rights liability	10.4	11.1
Debt securities	3.1	1.6
Derivatives	2.6	6.3
Financial Guarantees	19.8	-
Total current other financial liabilities	**943.3**	**656.8**
Total other financial liabilities	**1,118.8**	**761.9**

Deposits by banks. The vast majority of deposits by banks are held by the Bank of England. These deposits, repayable on demand, are the reserve accounts held by the Bank and are the means by which banks and building societies settle transactions.

Banknotes are issued by the Bank of England. The value of 'Notes in Circulation' increased by £10.3 billion was primarily attributable to the February 2020 launch of the new £20 polymer note, as well as greater general demand for banknotes during the pandemic..

Bank and other borrowings include loans and overdrafts. The largest element in this category is the £23.9 billion (2019-20: £24.7 billion) of Network Rail total outstanding debt; as reported by the Department for Transport. Other material balances include £16.90 billion (2019-20: £17.0 billion) of non-interest bearing securities in the National Loans Fund.

International Monetary Fund (IMF) Special Drawing Rights (SDRs) liability has fallen to £10.4 billion (2019-20: £11.1 billion) due to changes in exchange rates. This relates to the UK's participation in the SDR Agreement. A corresponding asset of £12.4 billion (2019-20: £12.9 billion) for the UK's actual holdings of SDRs is included in Note 16.

Debt securities comprise securitised notes and covered bonds issued by HM Treasury group and the Bank of England to securitise loans to customers and to raise unsecured medium-term funding.

Derivatives include the £16.9 billion (2019-20: £16.5 billion) liability held by the Department for Business, Energy and Industrial Strategy (BEIS) relating to contracts for Difference (CfD); these are a mechanism used to support investment in UK low carbon energy generation products.

Other derivatives relate to the Pension Protection Fund of £6.6 billion (2019-20: £8.8 billion) which are interest rate swaps, options, credit default swaps and forward foreign exchange contracts to support liability-driven investment.

Financial guarantees of £19.8 billion relate to guarantee schemes established in response to the covid-19 pandemic; these include Bounce Back Loans Scheme (£17.2 billion), Coronavirus Business Interruption Loan Scheme (£2.2 billion) and Coronavirus Large Business Interruption Loan Scheme (£0.4 billion).

Other Financial Liabilities of £74.5 billion are a result of the Bank of England's Policy Committee's announcement in March 2020 of a comprehensive package of measures to help UK businesses and households manage economic disruption caused by the Covid virus. Part of the package involved the launch of the Term Funding Scheme with additional incentives for SMEs (TFSME).

Note 22. Provisions for liabilities and charges

Provisions for liabilities and charges

	Nuclear decommissioning	Clinical negligence	EU liabilities	PPF*	Other	2020-21 Total	2019-20 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
At 1 April	157.0	86.1	38.7	31.1	61.9	374.8	311.4
Restatement	-	2.8	-	-	-	2.8	-
Boundary adjustments	-	-	-	-	(0.5)	(0.5)	-
Provisions utilised in year	(3.2)	(2.4)	-	-	(19.7)	(25.3)	(15.2)
New provisions or increase in expected future pay-outs	3.0	4.9	-	(1.2)	15.6	22.3	94.7
Change in discount rate	2.1	0.2	-	-	0.1	2.4	(9.1)
Discount rate unwind	0.2	0.5	0.7	-	0.2	1.6	0.9
Provisions not required written back	(0.2)	(4.8)	(3.1)	(1.0)	(2.3)	(11.4)	(7.0)
Transfers to/from payables and other movements	0.2	-	-	-	(0.5)	(0.3)	(0.9)
At 31 March	**159.1**	**87.3**	**36.3**	**28.9**	**54.8**	**366.4**	**374.8**

*Pension Protection Fund

Provisions movement

	2020-21 £bn	2019-20 £bn
Provision movement		
Amounts included in the Statement of Revenue and Expenditure:		
Increase in provisions	32.1	74.3
Provision expense in cost to public services	**32.1**	**74.3**
Discount rate changes	2.4	(9.1)
Discount rate unwind	1.6	0.9
Provision financing costs	**4.0**	**(8.2)**
Total expenditure recognised in the Statement of Revenue and Expenditure	**36.1**	**66.1**
Amounts included in the Statement of Financial Position	(22.0)	12.5
Pay-outs made in year	(25.3)	(15.2)
Total provision movement	**(11.2)**	**63.4**

Provision profile

	Nuclear decommissioning £bn	Clinical negligence £bn	EU liabilities £bn	PPF* £bn	Other £bn	2020-21 Total £bn	2019-20 Total £bn
Within one year	3.5	3.4	8.4	1.1	12.0	28.4	30.4
Between one and five years	15.6	13.7	19.4	3.7	16.3	68.7	74.9
Thereafter	140.0	70.2	8.5	24.1	26.5	269.3	269.5
Total provision liability	**159.1**	**87.3**	**36.3**	**28.9**	**54.8**	**366.4**	**374.8**
Current provisions	3.5	3.4	8.4	1.1	12.0	28.4	30.4
Non-current provisions	155.6	83.9	27.9	27.8	42.8	338.0	344.4

*Pension Protection Fund

The total provision liability decreased by £8.4 billion as of 31 March 2021 from £374.8 billion in 2019-20 to £366.4 billion in 2020-21. Of the total provision liability:

- £159.1 billion (2019-20: £157.0 billion) is for Nuclear Decommissioning
- £87.3 billion (2019-20: £86.1 billion) is for Clinical Negligence
- £28.9 billion (2019-20: £31.1 billion) is for the Pension Protection Fund

Inflation assumptions

In using nominal rates there is a need to inflate cashflows as such rates do not take a measure of inflation into account unlike real discount rates. HM Treasury provides the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) forecasted inflation rates to be employed to expected cash flows, except where an entity has judged there is a reasoned basis for alternative rates to be employed. They are based on what is judged to be the most statistically reliable measure of inflation.

Impact of changes in discount rate

Some government priorities carry obligations that are very long-term and will involve expenditure over decades to come. The eventual costs of these long-term projects are uncertain, but entities are required to present a single number in the annual accounts. This single number is based on best estimate of costs, technology, and other relevant factors, adjusted to reflect the changing value of money over time. The worth of future cash flows is calculated at present value in accordance with accounting standards. Provision discount rates set by HM Treasury are updated annually and have a material effect on liabilities.

Previously HM Treasury issued real rates based upon the real yield of UK index-linked gilts. From 2018-19 onwards, HM Treasury issued nominal rates that do not take account of inflation, unlike real rates. Using these nominal rates, the cash flows are inflated using inflation rates provided by HM Treasury except where a more appropriate forecast has been identified for specific provisions.

Summary table of general provisions discount rates applied for the last five years	**2020-21** **Nominal rate**	**2019-20** **Nominal rate**	**2018-19** **Nominal rate**	**2017-18** **Real rate**	**2016-17** **Real rate**
Short-term	-0.02%	0.51%	0.76%	-2.42%	-2.70%
Medium-term	-0.02%	0.55%	1.14%	-1.85%	-1.95%
Long-term	0.18%	1.99%	1.99%	-1.56%	-0.80%
Very long-term	1.99%	1.99%	1.99%	-	-

Provision for nuclear decommissioning

Department for Business, Energy & Industrial Strategy (BEIS) £136.2 billion (2019-20: £135.9 billion)

The nuclear provision represents the discounted estimated cost of the decommissioning mission over approximately 120 years. Provisions for the Nuclear Decommissioning Authority relate to the expected future cost of managing the energy legacy. The Nuclear Decommissioning Authority's management's best estimate of the future costs of the estate is based on an assumed inventory of materials, using strategies for retrieval and disposal over several decades is expected to take until 2137 to complete. The NDA also considers credible risks and opportunities which may increase or decrease the cost estimate, but which are deemed less probable than the best estimate. Each of these elements (quantity, method, and time to treat) is uncertain, as is the cost of developing the necessary technology and plans to deal with these activities. The quality of the forecast may become less certain with time and acceptable standards of clean-up and end states may change.

The NDA's nuclear decommissioning liability represents NDA's best estimate of the costs of decommissioning plant and equipment on each of the designated nuclear licensed sites in accordance with the published strategy. The programme of decommissioning work will take until 2137 but, in preparing the estimate, the NDA focused in particular on the first 20 years which represent £60 billion out of the total £135 billion provision (2019-20: £58 billion out of £135 billion). The estimates are based on assumptions about the processes and methods likely to be used to discharge the obligations and reflect the latest technical knowledge, existing regulatory requirements, Government policy and commercial agreements. Given the very long timescale and the complexity of the plants and material being handled, considerable uncertainty remains in the cost estimate, particularly in the later years. Sellafield remains the NDA's largest area of spend and has been increasingly prioritised in recent years as funding is directed towards the estate's highest hazards. Sellafield represents activities associated with operation of the site, reprocessing and eventual decommissioning, and includes all site overheads.

For 2020-21, general provisions were subject to four separate nominal discount rates as prescribed by HM Treasury, according to the expected timing of cashflows.

Real Discount Rates	2020-21	2019-20	2018-19	Period from consolidated position
Short-term	-1.21%	-1.36%	-1.22%	0 to 5 years
Medium-term	-1.88%	-1.46%	-1.31%	5 to 10 years
Long-term	-1.78%	-1.42%	-0.94%	10 to 40 years
Very long-term	-0.01%	-0.01%	-0.11%	Over 40 years

The impact of the change in the discounting approach is included in the "Change in discount rate" movement of provisions. Where expenditure in settlement of a provision is expected to be recovered from a third party, the recoverable amount is treated as a separate asset. Provision charges in the Statement of Comprehensive Net Expenditure are shown net of changes in these recoverable amounts.

Ministry of Defence (MOD) £13.2 billion (2019-20: £11.7 billion)

Provisions have been made for the cost of the treatment, storage and disposal of the nuclear materials, Irradiated Fuel and Radioactive Waste arising from the Defence Nuclear Programme as well as for the decommissioning of sites, facilities and 31 out of service and operational submarines for which the MOD is ultimately responsible. The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 117 years. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. Should outcomes differ from assumptions in any of the following areas this may require material adjustments to the value of the nuclear decommissioning provisions and related assets and liabilities:

- The time over which the work will be delivered with the programme of work not scheduled to conclude until well into the next century.
- Interdependencies between programmes of work, for example, a Geological Disposal Facility (GDF) is assumed to be the end point for MOD's higher activity waste. If the assumptions underpinning a GDF were to change, this would have a direct impact on the provisions held by the Department.
- Uncertainty over future government policy positions and potential regulatory changes.
- Possible technological advances which could impact the work to be undertaken to decommission and clean up the sites.

The movements in discounted nuclear provisions from 2019-20 is made up of £1.3 billion of changes in accounting estimates and £0.2 billion in relation to the effect of unwinding and changes to existing discount rates applied to the provision every year.

Nuclear Liabilities Fund (NLF) £9.7 billion (2019-20: £9.37 billion)

The provision represents the fund's future potential liability to the Licensee, Energy Nuclear Generation Limited (EDFE) at the date of the statement of financial position. In accordance with the Nuclear Liabilities Funding Agreement (NLFA), the liability of the fund in respect of qualifying liabilities will be limited to the assets available to it. The Secretary of State for the Department for Business, Energy and Industrial Strategy has undertaken that HM Government will be responsible for meeting qualifying liabilities to the extent that the fund does not have sufficient assets available to it. The provision has been set so that the total provisions for qualifying liabilities equal the total net assets less current liabilities and called up share capital of the fund. The process by which EDFE determines its qualifying liabilities is prescribed by the NLFA. Under its terms, EDFE is required to prepare and update full life plans for decommissioning their power stations every five years, or three years prior to station closure, or in the event legislation or government policy changes, whichever occurs first. These plans are required to contain the most recent estimates of the costs of decommissioning.

Provision for EU Liabilities Funding

HM Treasury (HMT) £36.3 billion (2019-20: £38.7 billion)

EU Financial Settlement: Article 140 – Reste a Liquider (RAL)

Under Article 140 of the Withdrawal Agreement "Outstanding Commitments", the UK remains responsible for its share of the EU Budget commitments made during the UK's participation in the EU Budget over the 2014-20 MFF (ending December 2020). The RAL represents EU budgetary commitments that have been made and are expected to result in payments by the EU in the future. Budgetary commitments that are subsequently decommitted, for example where the underlying programme does not go ahead, are removed from the RAL. The UK is only liable to pay a share of RAL at the end of 2020 to the extent it crystallises as payments by the EU. The UK's liability under Article 140 will be reduced by a number of items, including: the amount of net financial corrections; the proceeds of any Member State Making Available Resources infringements; and Traditional Own Resources adjustments.

EU Financial Settlement: Article 142 – Union Liabilities at End 2020

Under Article 142 of the Withdrawal Agreement "Union Liabilities at End 2020", the UK will pay a share of the EU's payments for the employment and other related benefits accrued by EU employees up to the end of 2020. Specifically, these benefits are materially comprised of pensions schemes and the Joint Sickness Insurance Scheme (JSIS). The EU has always been due to pay these benefits. Expenditure to settle in-year benefits is incurred by the EU and accordingly by all Member States as part of their budget contributions. As the UK has left the EU, the Withdrawal Agreement in effect created a liability for the UK and HM Treasury is required to make provisions for the future cash outflow.

Provision for clinical negligence

Department of Health and Social Care (DHSC) £84.9 billion (2019-20: £83.8 billion)

The Department of Health and Social Care provides for future costs in several cases where it is the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence. NHS England, NHS Foundation Trusts and NHS Trusts retain legal responsibility for all liabilities covered by the Ex-Regional Health Authority Scheme (ex RHA), Existing Liabilities Scheme (ELS) and Clinical Negligence Scheme for Trusts (CNST), but NHS Resolution (NHSR) accounts for all the liabilities under these separate schemes. Actuaries appointed by NHSR undertake regular reviews to identify movements in the value of likely future settlements under these schemes, and these are recorded in the NHSR's Annual Report and Accounts.

The provision also includes liabilities relating to the Clinical Negligence Scheme for General Practice (CNSGP) which covers clinical negligence claims for incidents occurring in general practice on or after 1 April 2019. Additionally, it covers the Existing Liabilities for General Practice (ELGP), which reflects the interim arrangements under which NHS Resolution carry out the Secretary of State's oversight and governance responsibilities relating to existing liabilities agreed with the Medical Protection Society (MPS), a medical defence organisation and Existing Liabilities Scheme for General Practice (ELSGP) which covers claims for historical NHS clinical negligence and other tortious incidents of GP members of participating medical defence organisations occurring at any time before 1 April 2019. This scheme covered members of the Medical and Dental Defence Union of Scotland from 6 April 2020 and was extended to Medical Protection Society members from 1 April 2021.

The coronavirus pandemic had a significant impact on the NHS in 2020-21, which has the potential to affect the value of the liabilities covered by NHS Resolution. Many of the liabilities arising from healthcare provision in relation to the pandemic are covered by arrangements already in place (i.e., through CNST, CNSGP and Liability to Third Parties Scheme). However, two new schemes were established during the year to provide indemnity cover for activities related to the response to the coronavirus pandemic. The Clinical Negligence Scheme for Coronavirus (CNSC), launched on 3 April 2020, which meets clinical negligence liabilities arising from the special healthcare arrangements that were put in place in response to the pandemic. Any clinical negligence liabilities arising prior to or after this date from these coronavirus-related NHS activities are covered by CNSC by direction from Secretary of State under section 11 of the Coronavirus Act 2020 or, prior to the commencement of that section, under general powers to provide indemnity for clinical negligence. Secondly, the Coronavirus Temporary Indemnity Scheme (CTIS) which will provide state cover for employer's liability and public liability to fill gaps where Covid-19 positive patients have been discharged from the NHS into designated care home settings which have been unable to secure sufficient private insurance cover.

The majority (approximately 65%) of the CNST provision is because of claims arising from maternity activity – such as brain damage to babies at birth from negligent care. Although there have been some changes, maternity activities overall continued during the pandemic and are expected to result in a similar level of claims as in previous years. A large share (90%) of the total provision is in relation to incidents that occurred prior to 2020-21. While these claims might still be affected by any potential disruption in the reporting and settlement of claims, for example due to legal firms furloughing staff, this is not expected significantly to alter the liabilities reported.

Known reported claims are individually valued using likely costs to resolve the claim and probability factors to take account of the potential of a successful defence, while incurred but not reported (IBNR) claims are valued using actuarial models to predict likely values. The value of the provision decreased by £1.34 billion in 2020-21 from £83.8 billion at 31 March 2020 to £82.4 billion at 31 March 2021. £0.4 billion of this decrease is due to the reductions in the short- and medium-term discount rates specified for use by HM Treasury. A £9 billion increase relates to annual activity for all schemes for all incident years and £7.3 billion (decrease) due to changes in assumptions affecting the IBNR provision. A decrease of £1.1 billion in respect of changes in assumptions affecting known claims, primarily due to claims closed during the year either at a lower value than expected or where the claim was repudiated and a decrease of £2.3 billion relating to amounts paid out during the financial year to settle claims.

These provisions represent the English element of the clinical negligence provision as shown in the accounts and is the value in today's prices of the cost of claims arising from harm that occurred up to 31 March 2021. In 2020/21 NHSR received 12,629 (2019-20: 11,678) clinical negligence claims and reported incidents, an increase of 951 (7.5%). The total received includes 973 new claims and incidents for the relatively new CNSGP, 840 against the ELSGP and seven against the new Clinical Negligence Scheme for Coronavirus. There was a decrease in clinical claims overall on other established clinical schemes. It is expected that any claims arising from the pandemic will be made in future years, given that the average time lag between incident and notification of a (non-maternity) claim is 3.6 years. The pandemic is likely to have contributed to a drop in claims reported by members and scheme beneficiaries or asserted by claimants' solicitors due to the operational challenges faced over the year and reduced activity in some clinical areas. The number of new non-clinical claims, typically employers' and public liability claims, was 2,759 (2019-20: 3,744), a decrease of 985 (26.3%). This decrease can be attributed to the effects of the pandemic including operational challenges during the period and reduced access for the public to hospital premises. Due to the long-term nature of the liabilities and the assumptions on which the estimate of the provision is based, some uncertainty about the value of the liability remains. This is particularly relevant to the IBNR element of the provision (the largest single element of total provisions, and therefore where uncertainty has the greatest effect). Clinical negligence claims which may succeed, but are less likely or cannot be reliably estimated, are accounted for as contingent liabilities.

The HM Treasury PES discount rate note from December 2020 states that all cash flows should be assumed to increase in line with the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) inflation rates unless three specific conditions are met. NHS Resolution have determined that in relation to Clinical Negligence the three conditions have been met and have therefore used alternative inflation measures for the IBNR provision and settled Periodic payment Order (PPO) claims. Further information including additional detail regarding key assumptions and areas of uncertainty is available in NHSR's Annual Report and Accounts.

Welsh Government Clinical Negligence £1.3 billion (2019-20: £1.2 billion)

NHS Wales organisations provide for legal or constructive obligations for clinical negligence, personal injury and defence costs that are of uncertain timing or amount at the balance sheet date because of the best estimate of the expenditure required to settle the obligation. Claims are funded via the Welsh Risk Pool Services (WRPS) which receives an annual top-slice allocation from Welsh Government.

Significant estimations are made in relation to on-going clinical negligence and personal injury claims. Assumptions as to the likely outcome, the potential liabilities and the timings of these litigation claims are provided by independent legal advisors. The provision for probable and certain cases is based on case estimates of individual reported claims received by Legal & Risk Services within NHS Wales Shared Services Partnership. The solicitors estimate the case value including defence fees, using professional judgement and from obtaining counsel advice. Valuations are then discounted for the future loss elements using individual life expectancies and the Government Actuary's Department actuarial tables (Ogden tables) and Personal Injury Discount Rate of minus 0.75%. Future liabilities for certain & probable cases with a probability of 95%-100% and 50%-94% respectively are held as a provision on the balance sheet.

Additionally, the Welsh Government holds health related provisions for the Wales Infected Blood Support Scheme and expected future re-imbursements of the Welsh Risk Pool (WRP). The Wales Infected Blood Support Scheme provides a single, streamlined scheme of ex gratia support payments for individuals and their families affected by hepatitis C and HIV through treatment with contaminated blood in Wales. On 25 March 2021, additional financial support arrangements backdated to April 2019 for existing beneficiaries were announced. The balance on the provision for the Wales Infected Blood Support Scheme, as at 31 March 2021, is £0.14 billion (2019 20: £0.08 billion). WRP assists Welsh NHS bodies with risk management and settlement of disputed claims for alleged medical or employer negligence. WRP balance as at 31 March 2021 is £1.13 billion (2019-20: £1.13 billion).

Scottish Government Clinical Negligence £0.81 billion (2019-20: £0.81 billion)

Clinical and medical negligence costs included within provisions represents the national liability for the Scottish Government. In 2020-21 £0.05 billion (2019-20: £0.03 billion) of estimated settlement value of medical and clinical negligence claims were added to the provision. In 2020-21 £0.03 billion (2019-20: £0.00 billion) in claims were settled.

Other provisions

Other provisions include a wide range of provisions across all parts of the public sector. These include provisions in relation to injury benefits, medical costs, criminal injuries compensation, legal costs, compulsory purchases, concessionary fuel allowance to ex-miners, mine water treatment, public safety and subsidence, subsidence pumping stations and tip management, claims in respect of structural damage and diminution of value of properties affected by transport schemes, and compensation payments for termination of employment. The most significant provisions included in this balance are:

Financial Assistance Scheme £2.0 billion (2019-20: £5.49 billion)

This is held by the Department for Work and Pensions (DWP) for the Financial Assistance Scheme (FAS). FAS provides assistance to members of defined benefit occupational pension schemes that were wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005. The FAS provision is to provide for the liabilities arising from any qualifying schemes once the assets from such schemes have transferred to government. The provision is an estimate of the current value of the liability to make payments to pensioners under the FAS scheme. The provision is calculated by using a long-term cash forecast model provided by Pension Protection Fund (PPF) who manage the administration of FAS. The cash flows are then discounted, at rates provided by HM Treasury, to give their present value at the year end. The FAS assets, which are not recognised in the DWP balance sheet, are mostly held as annuities. The income streams from these are generally not affected by any market volatility arising because of Covid-19, although the present value placed on them will depend on the discount rate, which could be impacted. The income streams, and therefore the present value, will also be impacted by the mortality experienced by the members the annuities relate to, which may be impacted by Covid-19. However, the total value of the assets is small compared to the FAS liability, and any fluctuation in asset value smaller still, and so the impact of Covid-19 on the assets is expected to be immaterial.

Due to the long-term nature of the liabilities and the assumptions on which the estimate of the provision is based, which could potentially be impacted by the wider economic effects of Covid-19, some uncertainty about the value of the liability remains.

Pension scheme claims £28.9 billion (2019-20: £31.1 billion)

This is the amount held by the Pension Protection Fund relating to liabilities to pay compensation to members and claims from pension schemes. The Pension Protection Fund retains the assets of the pension plans it rescues and generates investment growth to support the obligations it acquires. At 31 March 2021, it had £42.1 billion (2019-20: £42.9 billion) of assets under management £9.1 billion (2019-20: £5 billion) in excess of its liabilities.

Oil and gas field decommissioning costs £9.5 billion (2019-20: £9.4 billion)

The provision is estimated as the appropriately discounted sum of all forecast decommissioning repayments over the expected lifetime of the North Sea oil and gas fields. Repayment profiles are derived from the output produced by HMRC's North Sea Forecasting Model developed at the individual company and field level. A provision of £9.5 billion has been reported based on the estimated tax repayments of Petroleum Revenue Tax (PRT) £3.3 billion (2019-20: £3.6 billion) and offshore Corporation Tax (CT) £6.2 billion (2019-20: £5.8 billion) by HMRC to companies over the period to 2068 due to losses from decommissioning expenditure.

The largest impact on the size of the provision, and biggest source of uncertainty in estimating it, is future decommissioning costs. Annually, the Oil and Gas Authority (OGA) estimates the total costs of remaining oil and gas decommissioning for the UK Continental Shelf (UKCS), including newly sanctioned projects, and changes to the portfolio of potential, as yet unsanctioned projects. Recognising the uncertainty around this, the OGA gives a range for expected decommissioning costs for UKCS oil and gas infrastructure over the remaining life of the North Sea basin. The £9.5 billion provision included in the Trust Statement is calculated using the OGA's central estimate for decommissioning costs of £48 billion in 2020 prices. Using the OGA's lower (£38 billion) and upper (£61 billion) decommissioning cost estimates would instead give provision estimates of £7.7 billion and £12.4 billion respectively. The main economic determinant which drives the provision are oil and gas prices. The provision is also impacted by discount rate and foreign exchange rates.

Tax Cases Legal claims £3.4 billion (2019-20: £4.9 billion)

HMRC is involved in several legal and other disputes which can result in claims against HMRC by taxpayers. It is HMRC's assessment that a number of these matters may be the subject of litigation over several years. The department, having taken legal and other specialist advice, has established a provision having regard to the relevant facts and circumstances of each matter in accordance with accounting requirements. Due to an element of uncertainty in the estimate of the provision, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations, and possible settlement discussions. Provisions were reviewed during 2020 to 2021; discounting has not been applied on the basis of materiality.

There were a number of entities which contributed to the note total in 2019-20, but which did not make submissions to the WGA this year. This accounts for the reduction in balances overall, and is shown in the "Boundary adjustment" line above.

Note 23. Financial instruments

This financial instrument note has two parts. The first part provides information on the significance of financial instruments on the government's balance sheet. The second part provides information about the nature and extent of risks arising from financial instruments and what the government does to manage and mitigate these risks.

Financial assets by category 2020-21

	Note	Cash and cash equivalents	Amortised Cost	FVTPL*	FVTOCI*	2020-21 Total	2019-20 Total
		£bn	£bn	£bn	£bn	£bn	£bn
Cash and cash equivalents	18	39.6	-	-	-	39.6	37.6
Trade and other receivables	15	-	202.9	-	-	202.9	182.0
Debt securities	16	-	-	129.0	-	129.0	118.1
Loans and deposits (including REPOS)	16	-	235.3	16.2	1.5	253.0	197.8
Student loans	16	-	-	87.8	-	87.8	79.1
Equity investments	16	-	1.5	20.7	22.6	44.8	37.1
IMF quota subscription	16	-	-	20.8	-	20.8	22.3
IMF Special Drawing Rights	16	-	-	12.4	-	12.4	12.9
Other	16	-	5.2	52.2	0.5	57.9	48.9
Total financial assets		**39.6**	**444.9**	**339.1**	**24.6**	**848.2**	**735.8**

*FVTPL: Fair Value Through Profit or Loss
*FVTOCI: Fair Value Through Other Comprehensive Income

Most **debt securities** (£81.8 billion, 2019-20: £92.2 billion) are held in the EEA, and comprise the UK's official holding of international reserves.

The government holds foreign currency reserves on a precautionary basis to meet current policy objectives to regulate the exchange value of sterling and any potential future changes in policy.

Other significant financial assets include those lent under the Funding for Lending Scheme (FLS). Under FLS participating banks and building societies can borrow Treasury Bills from the Bank of England in exchange for eligible collateral. As at 31 March 2021, on an amortised cost basis, £0.3 billion (2019-20: £3.2 billion) of Treasury Bills issued for the FLS were outstanding; further details are available from the accounts of both the National Loans Fund and the Bank of England.

Balances with the IMF are made up of the IMF quota subscription (£20.8 billion, 2019-20: £22.3 billion) and IMF Special Drawing Rights (SDRs) (£12.4 billion, 2019-20: £12.9 billion). SDRs are an international reserve asset created by the IMF. SDRs represent a claim to currency held by IMF member countries for which they may be exchanged. The government's holdings result from SDR allocations made by the IMF, any subsequent purchases and sales of SDRs from or to other IMF members and fair value changes.

A significant balance within **other financial instruments** is derivatives (£9.5 billion, 2019-20: £11.9 billion). Of the derivatives balance the largest individual material balances are with the Pension Protection Fund (PPF) (£6.0 billion, 2019-20: £9.3 billion), and EEA (£3.1 billion, 2019-20: £1.4 billion). The PPF manage the risks associated with this by using counterparties rated at least A- (or subject to increased collateral) and are subject to overall exposure limits. The EEA manage the risks associated with this by counterparty and issuer limits and collateralisation. Further details can be found in the PPF and EEA accounts. Other significant balances (£18.0 billion, 2019-20: £15.0 billion) include investments in Help to Buy; this represents an entitlement to future income from the assistance provided to homebuyers by Department for Levelling Up, Housing and Communities.[29]

The government also has gold holdings which are treated as being like a financial asset and are reported at fair value based on the sterling equivalent of the dollar denominated spot bid price as at 31 March 2021. During 2020-21, the price of gold fell from £1,296 to £1,235 per ounce, a decrease of 5% giving rise to a revaluation loss of £0.5 billion.

[29] During 2020-21, the Department for Levelling Up, Housing and Communities was called Ministry of Housing, Communities and Local Government

Financial liabilities by category 2020-21

	Note	Carried at amortised cost £bn	FVTPL* £bn	2020-21 Total £bn	2019-20 Total £bn
Trade and other payables	19	221.3	-	221.3	201.1
Government borrowings	20	1,520.3	-	1,520.3	1,445.4
Deposits by banks	21	769.1	45.8	814.9	559.6
Banknotes in circulation	21	84.7	-	84.7	74.4
Bank and other borrowings	21	79.9	-	79.9	77.6
Derivatives	21	-	27.3	27.3	33.0
Debt securities	21	4.5	-	4.5	4.8
IMF Special Drawing Rights liability	21	-	10.4	10.4	11.1
Financial guarantees	21	19.9	0.4	20.3	0.4
Other	21	76.7	0.1	76.8	1.0
Total financial liabilities		**2,776.4**	**84.0**	**2,860.4**	**2,408.4**

*FVTPL: Fair Value Through Profit or Loss

In most cases the value of assets and liabilities shown on the statement of financial position either equals or is a reasonable approximation of fair value. The main exceptions are government borrowings and the Contracts for Differences (CfD) liability (included in derivatives in the table above). Gilt-edged securities have a carrying amount of £1,264.7 billion (2019-20: £1,182.5 billion) and a fair value of £1,545.2 billion (2019-20: £1,639.1 billion), reflecting the higher amount that investors are willing to pay in order to secure a certain level of interest payment. The CfD liability has a carrying value of £15.7 billion (2019-20: £16.5 billion) and a fair value of £36.9 billion (2019-20: £38.8 billion). The decrease of £1.9 billion in fair value is mainly due to revisions to the wholesale price electricity forecasts that are expected to be achieved by generators and payments made during the 2020-21 year. The best estimate of fair value as at 31 March 2021 for the Hinkley Point C (HPC) D liability is £52.0 billion (2019-20: £50.8 billion). Further details can be found in the Department for Business, Energy and Industry Strategy (BEIS) annual report and accounts, and in Note 2 of WGA. Other financial liabilities includes £74.5 billion of TFSME funding.

Fair value hierarchy

Assets and liabilities carried at fair value are valued using a 'fair value hierarchy' which gives highest priority to quoted prices in active markets for identical instruments (level 1 inputs), second priority to valuation techniques based on observable inputs (level 2) and lowest priority to valuation techniques using unobservable inputs. Where valuation techniques are based on unobservable inputs (level 3) then the appropriate valuation technique is chosen, including use of discounting of future cash flows and the use of the net asset values underlying the unquoted equity investment. The table below summarises asset and liability fair values based on the valuation technique used.

Fair value hierarchy 2020-21

	Level 1 £bn	Level 2 £bn	Level 3 £bn	2020-21 Total £bn	2019-20 Total £bn
Financial assets at fair value:					
Debt securities	107.5	15.5	6.0	129.0	118.1
Equity investments	20.7	9.5	13.1	43.3	37.1
IMF quota	-	20.8	-	20.8	22.3
IMF Special Drawing Rights	12.4	-	-	12.4	12.9
Loans and deposits (including REPO)		16.0	1.7	17.7	20.9
Student loans	-	3.8	84.0	87.8	79.1
Other	2.0	25.0	25.7	52.7	44.5
Financial liabilities at fair value:					
Deposits by banks	-	(45.8)	-	(45.8)	(37.4)
IMF SDR Allocation	(10.4)	-	-	(10.4)	(11.1)
Financial Guarantees	(0.2)	(0.1)	(0.1)	(0.4)	-
Derivatives	(0.1)	(10.2)	(17.0)	(27.3)	(33.0)
Other	(0.1)	-	-	(0.1)	-

The most significant individual level 3 assets balance is student loans which is not observable market data. Further details can be found in the annual report and accounts of the Department for Education. Second is the CfD contracts which use a discounted cash flow methodology, further details can be found in the annual report and accounts of BEIS.

The most significant level 1 asset within equity investments is in the NatWest (formerly Royal Bank of Scotland (RBS)) relating to HMT's holding of the NatWest ordinary shares. The valuation of this asset changes based on the movement of the market. Further details can be found in the accounts of HMT.[30]

Liquidity risk

The government's objective when funding its activities is to minimise, over the long term, the costs of meeting the government's financing needs considering risk, while ensuring that debt management policy is consistent with the aims of monetary policy.

Each year, the government assesses the costs and risks associated with different possible patterns of debt issuance, considering the most up-to-date evidence and information about market conditions and demand for debt instruments. This information is used to set the Debt Management Office's (DMO's) financing remit which is published alongside the Budget and updated during the year to reflect changes to the government's cash requirements.

There is a risk that the government will need to roll over high levels of debt continuously, or redemptions will be concentrated in particular years; this risk is mitigated by taking decisions which spread gilt issuance along a maturity spectrum.

DMO's issuance profile used in 2020-21 is summarised below:

	Short conventional (0-7 years)	Medium conventional (7-15 years)	Long conventional (over 15 years)	Index linked	Unallocated
2020-21 debt issuance %	35%	31%	28%	7%	0%

Local authorities adopt independent liquidity risk management, and this is done within a statutory framework. Local authorities are required by the Local Government Finance Act 1992 to provide a balanced budget, which ensures enough funds are raised to cover annual expenditure. Medium term plans generally set targets for liquidity

30 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922357/HMT_Group_Annual_Report_and_Accounts_2019-20__003__for_web_accessible.pdf

ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities can access borrowings from the money markets to cover any day-to-day cash flow need and can access longer term funds from financial institutions or from the government's Public Works Loan Board. Balances between the Public Works Loan Board and local authorities are eliminated on consolidation within WGA.

Interest rate risk

At present, annual debt management decisions are made in the context of an elevated level of debt relative to gross domestic product (GDP) and high government borrowing. The government takes annual decisions that enhance fiscal decisions by a) mitigating refinancing risk, that is, the need to roll over high levels of debt continuously and to avoid concentrating redemptions in particular years, by taking decisions which spread gilt issuance along the maturity spectrum, b) encouraging the liquidity and efficiency of the gilt market and c) maintaining a diversity of exposure, both real and nominal, across the maturity spectrum, reflecting its preference for a balanced portfolio. As a result, subject to cost-effective financing, the government has decided to maintain a relatively long average maturity in the debt portfolio to limit exposure to refinancing risk and has also issued an appropriate balance of conventional and index-linked gilts over a range of maturities, taking account of structural demand, the diversity of the investor base and the government's preferences for inflation exposure. The government is exposed to cash flow interest rate risk on its remaining floating-rate investments and borrowings.

The most significant floating rate investments and borrowings are index-linked gilts and National Savings & Investments (NS&I) products, debt issued by Network Rail and student loans. Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk. Deposits from banks and other financial institutions held by the Bank of England was £803.8 billion (2019-20: £479.4 billion).

Index-linked gilts expose the government to both interest rate risk and inflation risk whereby interest and redemption amounts paid on index-linked gilts vary monthly in line with changes in RPI. If interest rates were to increase by 100 basis points then this would increase the government's borrowing costs by £1.8 billion (2019-20: £2.2 billion) and if RPI were to increase by 100 basis points then the government's borrowing costs would rise by £5.2 billion (2019-20: £5.1 billion). An element of this would be eliminated within the government boundary.

Network Rail has a combination of fixed, floating and index-linked debt issuances. As with the government's gilt portfolio, this gives rise to interest rate risk and inflation risk. Considering the impact on fair-valued debt issuances and the derivatives Network Rail uses to manage interest rate risk, if interest rates were to increase by 100 basis points then this would decrease Network Rail's net expenditure by £0.2 billion

(2019-20: £0.3 billion decrease) and if the RPI were to increase by 100 basis points then Network Rail's net expenditure would increase by £0.2 billion (2019-20: £0.2 billion increase).

The interest rate on pre 2012 student loans is the lower of RPI and the Bank of England base rate plus 1%. The amount of interest repayable is therefore subject to fluctuations in base rates and RPI. The impact of the interest rate risk for student loan issued under the pre 2012 scheme is factored into the carrying value as the student loan repayment model calculates the impact of the interest rate on expected future cash flows. There is inherent risk in forecasting the amount of interest payable and if the UK experiences base rates that are lower than RPI the future cash flows will be impaired further. It would require a change in RPI of +3.2% (2019-20: +3.7%) to decrease the value of the pre 2012 loan book by 1%. The same change in the post 2012 undergraduate full time loan book would require a 4.6% (2019-20: 3.8%) decrease in RPI to increase the value of the loan book by 1%, with a 4.6% (2019-20: 3.8%) increase in RPI to decrease the value of loan book by 1%.

Credit risk

The categories of financial assets with inherent significant credit risks are: loans and deposits (£253.0 billion) and student loans (£87.8 billion).

Loans and deposits mainly comprise loans provided through the Term Funding Scheme (TFS) of £39.5 billion (2019-20: £107.2 billion). The Bank of England manages credit risk by ensuring that exposures are fully backed by collateral, with appropriate adjustments made between the asset market value and the value that can be used for collateral purposes. The range of collateral can include mortgage-backed securities, covered bonds with preferential terms backed by a pool of mortgages or public sector securities, or portfolios of loans in unsecured form. The collateral must meet published eligibility criteria. A summary of eligible criteria is available on the Bank of England website, and further details can be found in the Bank of England annual report and accounts.

New Term Funding scheme for small to medium enterprises Term Funding Scheme with additional incentives for SMEs was £75.4 billion. In March 2020, the Bank's policy committees announced a comprehensive package of measures to help UK businesses and households manage the economic disruption caused by the Covid virus. Part of this package involved the launch of the Term Funding Scheme with additional incentives for SMEs (TFSME). The TFSME is designed to:

- help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefit from the MPC's actions;

- provide participants with a cost-effective source of funding to support additional lending to the real economy, providing insurance against adverse conditions in bank funding markets;
- incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption; and
- provide additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.

The drawdown period ran until 31 October 2021, or 30 April 2021 for participants which opted out of the TFSME extension. The term of each transaction is for four years from the date of drawdown. Participants in a TFSME Group that contains one or more accredited lenders under the British Business Bank's Bounce Back Loan Scheme (BBLS) will be able to extend the term of some transactions to align with the term of loans made through the BBLS. Participants may terminate any transaction, in part or in full, before its maturity date. The Bank charges interest on TFSME transactions equal to Bank Rate plus a Scheme fee (TFSME Fee). The TFSME Fee is determined at the end of the reference period, based on the net lending over the reference period. This fee ranges from 0 basis points to 25 basis points. The reference period runs from 31 December 2019 to 30 June 2021, or 31 December 2020 for participants which opted out of the TFSME extension. Any scheme fees due will be recognised once the reference period has closed, with future scheme fees arising on lending recognised on an accruals basis. TFSME income reflects Bank Rate on TFSME loans, with no penalty fees receivable in the year. TFSME income is capital neutral as Bank Rate income is offset by the Bank's liabilities on the corresponding reserves created. Any future TFSME penalty fees would be retained by the Bank as income

A further £85.9 billion (2019-20: £57.2 billion) of loans and deposits arise from reverse sale and repurchase agreements (REPOS). These agreements are mainly entered into by the Bank of England, DMA, and EEA. Exposures to credit risk are fully collateralised and assets held as collateral are revalued daily. The government returns collateral to the provider of collateral, or requests additional collateral, depending on whether the value of collateral has risen or fallen. Details on collateral held under these agreements can be found in the accounts of the Bank of England, the DMA and the EEA.

Loans and deposits also include mortgage loans made by UKAR (£nil billion, 2019-20: £5.0 billion) which are not rated but are assessed for expected credit loss. Details on the credit quality of these mortgage loans can be found in UKAR's accounts.

Student loans are a source of a credit risk. Eligible students can get loans regardless of their credit rating in order to support the policy aim of encouraging students to enter higher and further education. There is no obligation to repay the loan until the borrower's income reaches a certain income threshold and there are other circumstances when the loan will be written off, for example based on the age of the student. Therefore, even though most repayments are collected by HMRC as part of the tax collection process, not all the loans will be repaid.

The total balance sheet value of student loans provided by government, including those via the devolved administrations, is £87.8 billion (2019-20: £79.1 billion). The Department for Education, representing English students, holds £77.5 billion (2019-20: £69.2 billion). The face value of the Department for Education's loan book was £156.8 billion (2019-20: £135.7 billion face value). In March 2020, the Chancellor announced that the government would not pursue future student loan sales following a review which determined that sales no longer aligned with fiscal policy. The pre-sale costs were written off in the DfE Statement of Comprehensive Net Expenditure (SoCNE). The loan book continues to be accounted for under fair value per IFRS 9. In determining the fair value of student loans, DfE has used a discounted cash flow model and this includes all expected cash flows and recognised credit losses, including the interest that is expected to be received. As a result, a single fair value movement is now recognised in the DfE statement of comprehensive net expenditure.

Impact on scope of modelling assumptions and Covid-19

The OBR published new macroeconomic scenarios for three Covid-19 scenarios in mid-July 2020. Of these, determinants from the upside and downside scenarios have been used to compare the resulting student loan forecasts to those obtained using the central scenario which has been used to calculate the closing valuation. Note 13.4 of the DfE accounts provide more details on the modelling assumptions used to calculate the closing value of student loans. Covid-19 could cause a significant increase to unemployment as part of its wider economic effects. However, the impact on graduates forecast to make repayments on their loans is unknown. The current DfE model does not allow for unemployment to be flexed as a model input in the same way as other factors such as discount rate and RPI. The increased focus on unemployment following Covid-19 is why the absence of the input was identified as a model weakness in 2019-20. This remains a risk.

The impact of credit risk and policy decisions on repayment conditions on all Department for Education student loans are shown by the following table of fair value assets:

	2020-21 Balance sheet value £bn	2020-21 Face Value £bn	2020-21 closing FV adjustment under IFRS 9 £bn	2019-20 Balance sheet (restated) value £bn	2019-20 Face Value (Restated) £bn	2019-2020 closing FV adjustment (Restated) under IFRS 9 £bn
Pre-2012 higher education loans	18.5	30.7	12.2	19.5	32.3	12.8
Post-2012 higher education loans	59.0	126.1	67.1	49.7	103.4	53.7
Total student loans held by Department for Education	**77.5**	**156.8**	**79.3**	**69.2**	**135.7**	**66.5**

Following the adoption of IFRS 9 **expected credit loss** (ECL) “forward-looking model”, it is no longer necessary for a loss event to have occurred before credit losses are recognised. WGA entities are required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to both debt instruments accounted for at amortised cost and at FVTOCI. The figures below do not include financial assets with an ECL of zero and therefore do not match those presented elsewhere in this note.

Financial assets impaired	Gross financial assets £bn	Stage 1 £bn	Stage 2 £bn	Stage 3 £bn	Simplified Impairment rule £bn	Net financial assets £bn
Trade and other receivables	45.9	-	-	-	(31.7)	14.2
Loans held at amortised costs	153.4	0.4	-	(0.1)	-	153.7
Total financial assets	**199.3**	**0.4**	**-**	**(0.1)**	**(31.7)**	**167.9**

Table: Expected Credit Loss for assets held at amortised cost

Stage 1: assets for which there has been no significant increase in credit risk since the asset's origination the impairment provision reflects the next 12 months' ECL.

Stage 2: assets for which there has been a significant increase in credit risk since the asset's origination the impairment provision reflected full lifetime ECL.

Stage 3: assets which are in default, interest income is recognised only in respect of the balance net of impairment.

The above table illustrates:

- The WGA note most affected by the changes to the impairment of financial assets, under IFRS 9, is Note 15 (Trade and other receivables).
- Entities should apply the simplified expected credit loss model approach to trade receivables. Contract assets and lease receivables, when they meet certain criteria, shall always measure the loss allowance at an amount equal to lifetime expected credit loss. WGA entities can select their own accounting policy for trade receivables, lease receivables and contract assets independently. In 2020-21, WGA entities have £31.7 billion expected credit loss under trade and other receivables.
- Most of loans held at amortised cost consist of Term Funding Scheme loans (TFS) of £39.4 billion and £75.4 billion for the new TFS for small and medium enterprises.

- The Bank of England manages credit risk associated with these loans by ensuring that exposures are fully backed by collateral.
- Most of the loan liabilities held at amortised cost of £0.1 billion are classified as Stage 1, which means these assets have had no significant increase in credit risk since the asset's origination.

Foreign currency assets inevitably carry some element of credit risk. In order to keep this risk at a low level, the government predominantly invests in securities issued, or guaranteed by, the national governments of the United States, Euro area countries and Japan. The EEA debt securities are held at an equivalent external rating of AA and above (£76.7 billion, 2019-20: £86.5 billion) and A to AA (£5.1 billion, 2019-20: restated £5.7 billion) and were held within Europe (£31.9 billion, 2019-20: £38.4 billion), North America (£45.5 billion, 2019-20: £48.7 billion), and Asia-Pacific (£4.3 billion, 2019-20: £5.0 billion). Further details on the government's credit risk management of foreign currency reserves can be found in the 2020-21 Exchange Equalisation Account.

Foreign exchange rate risk

The government is mainly exposed to foreign exchange risk on the UK's official holdings of international reserves ('the Official Reserves'). Foreign currency reserves are held on a precautionary basis that could be used, when necessary, to regulate the exchange value of sterling, and is the mechanism through which any UK government exchange rate intervention would be conducted, for example in the event of any unexpected shocks.

The **Official Reserves** comprise two components: reserves that are hedged for currency and interest rate risk ('the hedged reserves'), and the remaining reserves which are unhedged for currency and interest rate risk ('the unhedged reserves'). The Official Reserves comprises assets held by the Exchange Equalisation Account (EEA) consisting of the UK's reserves of gold, foreign currency assets, and IMF SDRs, and assets held in the National Loan Fund (NLF) comprising the UK's Reserve Tranche Position at the IMF and lending to the IMF.

The Treasury has appointed the Bank of England to act as its agent in the day-to-day management of the EEA in accordance with an agreed framework and to manage the foreign currency assets and liabilities associated with the reserves of the NLF. The Bank of England monitors and controls market risk primarily by using a Value at Risk (VaR) model. This estimates a loss level that will not be exceeded at a specified confidence level, over a defined period, so that losses will not exceed the VaR figure in 99 out of 100 two-week periods.

The Bank reports the VaR on a benchmark reserve on a six-monthly basis. The values of the benchmark reserves are based on market-to-market prices at the end of the period.

Benchmark reserves

	2021 $ Million	2020 $ Million
Hedged reserves		
Value at Risk (VaR) as at 31 March	65	73
Unhedged Reserves		
Value at Risk (VaR) as at 31 March	3,085	2,973

In addition to foreign currency reserves, the government is exposed to foreign exchange risk through the UK's transactions with the IMF. The UK's quota subscription and lending to the IMF are both denominated in SDR and are subject to valuation adjustments by the IMF. The UK's liabilities to the IMF, although denominated in sterling, are also subject to valuation adjustments by the IMF.

In 2018-19, investments in financial institutions primarily related to the value of the UK's capital investment in the European Investment Bank (EIB) of £9.9 billion as based on the UK's share of the EIB's net assets in euros. Therefore, the government was exposed to foreign exchange rate risk on the fair value of this equity investment. On 31 January 2020 the UK left the EU under the terms of the Withdrawal Agreement. Article 150 of the Withdrawal Agreement provides for the return of the UK's paid-in capital in the EIB, as it stood at the point of withdrawal. The resulting asset is recognised as a receivable. As a result, the EIB asset has been reclassified from non-current investment to receivable. This has also led to a change in the measurement basis of the asset, reflecting that the UK 's interest is no longer in the performance of the net assets of the EIB but rather in the reimbursement of historic contributions.

Article 150 of the Withdrawal Agreement provides for the return of the UK's paid-in capital in the EIB, as it stood at the point of withdrawal. The first instalment (£272 million) one of twelve instalments was received in October 2020. In accordance with the clear line of sight principle, the EIB asset was transferred from the Consolidated Fund to HM Treasury in 2020-21 with the effective date of 31 March 2021. HM Treasury's estimate of the fair value of the receipts under Article 150 is £2,254 million.

Price risk

The government is exposed to price risk on its shareholding in NatWest. The fair value of these UK listed shares fluctuates as a result of changes in market prices. Market prices for a share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market. UK Government Investments (UKGI - a wholly owned subsidiary of HM Treasury) is responsible for the development and execution of an investment strategy for disposing of the investments in NatWest in an orderly and active way, within the context of protecting and creating value for the taxpayer.

Note 24. Public sector pensions

Pension liabilities

The public sector pension liabilities are summarised in the following table with figures separated out for each of the workforces. The table also shows the percentage change in the net liabilities between 2019-20 and 2020-21.

	Scheme liabilities	Scheme assets	2020-21 Net liabilities	2019-20 Net liabilities	Change in Net scheme liabilities
	£bn	£bn	£bn	£bn	%
Unfunded schemes:					
NHS	791.9	-	791.9	760.1	4.2
Teachers	501.0	-	501.0	490.4	2.1
Civil Service	339.4	-	339.4	308.6	10.0
Armed Forces	254.0	-	254.0	233.1	9.0
Police	176.4	-	176.4	165.7	6.5
Royal Mail	48.6	-	48.6	49.0	(0.8)
Fire	33.0	-	33.0	30.8	7.1
Other unfunded	23.8	-	23.8	24.2	(1.7)
	2,168.1	**-**	**2,168.1**	**2,061.9**	**5.1**
Funded schemes:					
Local government	361.5	(249.8)	111.7	105.7	5.7
Other funded	117.3	(90.9)	26.4	21.9	20.5
	478.8	**(340.7)**	**138.1**	**127.6**	**8.2**
Total	**2,646.9**	**(340.7)**	**2,306.2**	**2,189.5**	**5.3**

The Local Government Pensions Scheme (LGPS) is the largest funded scheme. There are just under 100 LGPS funds across the UK with 86 funds in England and Wales, 11 in Scotland and 1 in Northern Ireland. The individual local authority employers that contributed to these funds recognised their proportion of the scheme liabilities in their statement of accounts. The local government funded schemes balance disclosed above includes the portion of the pension liability of the LGPS that was reported in the financial accounts of the individual local authority employers.

The Scottish NHS and Teachers Pension Schemes did not submit data for consolidation into the 2020-21 WGA. The 2020-21 published accounts for these entities reported their pensions scheme liabilities, as at 31 March 2021, to be £86.9 billion and £48.2 billion respectively. Similarly, the Greater Manchester Combined Authority also did not submit data; and their published accounts for 2020-21 reported their pension scheme liability, as at 31 March 2021, to be £10.8 billion (£10.1 billion unfunded and £0.7 billion funded).

The Armed Forces restated the amounts disclosed in their accounts in 2019-20 (£3.2 billion reduction) to allow for an adjustment to the timing of pension increases applied to the pensioner liability. This has been included in 2020-21 on the restatement line.

Other unfunded schemes include schemes within the UK Atomic Energy Authority Pension Scheme of £8.8 billion (2019-20: £8.6 billion); and the Research Councils Pension Scheme (RCPS) £6.7 billion (2019-20: £6.2 billion).

Other funded schemes comprise largely of net liability balances reported by Academy schools £13.9 billion (2019-20: £11.1 billion); Department for Transport - including Network Rail £5.2 billion (2019-20: £4.1 billion); and Transport for London £5.5 billion (2019-20: £4.0 billion), Birmingham City Council £3.3 billion (2019-20: £2.5 billion). It also includes other pension scheme liabilities for bodies within the WGA boundary which are not local authorities.

In addition to updates provided in annual accounts, public sector pension schemes carry out periodic full actuarial valuations which are used to set employer contribution rates. The last full actuarial valuations for the majority of the unfunded pension schemes were carried out as at 31 March 2016, which set the employer contribution rates for a 5 year period from 1 April 2019. A further valuation took place in October 2020 but the figures presented are based on the previous valuation; this is due to interactions with wider pension policies, in particular the McCloud remedy, and changes resulting from the 2020 valuations have been delayed until April 2024.

Increase in pension liabilities

The table below breaks down the changes in the present value of gross scheme liabilities over the financial year.

	Unfunded	Funded	Total	Total
			2020-21	2019-20
	£bn	£bn	£bn	£bn
Gross liability at 1 April	2,079.7	447.3	2,527.0	2,244.4
Restatement	(3.2)	-	(3.2)	-
Boundary adjustment	(153.5)	(59.3)	(212.8)	-
Current service costs (net of participants' contribution)	65.8	12.7	78.5	66.6
Past service costs	0.2	0.2	0.4	(0.6)
Settlements/curtailments	-	-	-	(1.4)
Interest on scheme liabilities	35.6	8.6	44.2	61.9
Contribution by scheme participants	9.6	2.1	11.7	13.1
(Gains)/Losses on revaluation:				
Experience (gains) and losses arising on liabilities	(7.7)	6.2	(1.5)	(25.2)
Changes in assumptions underlying the value of liabilities	184.1	70.5	254.6	227.1
Benefits paid	(42.8)	(10.8)	(53.6)	(58.4)
Transfers in/(out)	0.3	1.3	1.6	(0.5)
Gross liability at 31 March	**2,168.1**	**478.8**	**2,646.9**	**2,527.0**

The boundary adjustment reflects the impact of entities who submitted data for 2019-20 but did not submit data for 2020-21 as referenced above. The overall pension liability has increased in spite of the missing entities; this is primarily down to the top 4 (in value) individual schemes having increased significantly, namely, NHS £103.9 billion, Teachers (England & Wales) £48.9 billion, Cabinet Office (Civil Service) £ 28.3 billion and the Armed Forces £24.1 billion.

Overall, the net public sector pension liability increased by £116.7 billion during the year. This is broken down as follows:

	2020-21 £bn	2019-20 £bn
Net liability at 1 April	2,189.5	1,893.9
Restatement	(3.2)	-
Boundary adjustment	(158.6)	-
Net (gains)/losses on revaluation	217.2	220.6
Current service costs (net of participants' contributions)	78.5	66.6
Net interest costs	24.1	53.9
Unfunded schemes benefits paid	(43.4)	(45.3)
Past service costs	0.4	(0.6)
Net settlements/curtailments	0.6	(0.6)
Contribution by unfunded scheme participants	9.6	9.8
Contribution by funded scheme employers	(9.5)	(8.4)
Net transfers in/(out)	1.0	(0.4)
Net liability at 31 March	**2,306.2**	**2,189.5**

As summarised in the above tables, the change in the net pension liability is largely dictated by four factors:

- the revaluation gain or loss, which at this year-end increases the liability as a loss was recognised
- the current service costs which increase the liability
- the net interest costs which increase the liability
- the benefits paid from the unfunded schemes which reduce the liability

This volatility in the revaluation gain or loss is predominantly due to the change in assumptions, in particular the discount rate net of inflation and demographic assumptions. The discount rate for central government unfunded schemes is based on yields of high quality (AA) corporate bonds. The return on corporate bonds is only used to discount the future benefit payments to the present day, therefore whilst movement in the assumption has a significant impact on the liability figure in the accounts from year to year, as shown by the sensitivity analysis, it does not influence the level of benefits received by the members.

The key financial assumptions are shown in Note 2.6 and show that, for the central government unfunded schemes, the (net of CPI) discount rate decreased from (0.5)% in 31 March 2020 to (0.95)% in 31 March 2021. The decrease in discount rate increases the present value of liabilities. This actuarial loss from the discount rate is recognised in other comprehensive income rather than against net expenditure. The increase in liability from the change in discount rate was accompanied by other changes in other assumptions, leading to an overall revaluation loss that increased the liability.

The table below shows the approximate sensitivity of the **unfunded liability** to changes in key assumptions. Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability. The sensitivity will be similar for the gross liability of the funded schemes.

	% change in value of unfunded liability	£bn change in unfunded liability
Increasing the assumption by 0.5% a year:		
Discount rate	(11%)	(236)
Rate of increase in pensions	10%	215
Rate of increase in Salaries	2%	43
Increasing assumed life expectancy in retirement by 1 year	4%	86

The **current service cost** is an estimate made by scheme actuaries of the benefits earned by employees in the year.

The **net interest cost** reflects the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the net liability. The expense from unwinding the discount rate is recognised against net expenditure.

Past service costs reflect changes in the present value of scheme liabilities related to employee service in prior periods that arise in the current period as a result of changes to retirement benefits.

Pension assets

Funded pension schemes hold the following assets:

	Local government £bn	Other funded £bn	2020-21 Total £bn	2019-20 Total £bn
Equity investments	145.7	33.7	179.4	170.7
Bonds	38.2	29.0	67.2	70.7
Other	65.9	28.2	94.1	96.1
Total market value	249.8	90.9	340.7	337.5

The 'other' balance consisted of property, cash and other alternative assets, such as hedge funds and private equity, diversified growth funds, or infrastructure investments, which have varying levels of performance.

Increase in pension assets

The table below breaks down the increase in the fair value of funded scheme assets over the financial year.

	2020-21 £bn	2019-20 £bn
Gross assets at 1 April	337.5	350.5
Boundary Adjustment	(54.1)	-
Interest on scheme assets	20.1	8.0
Actual return less interest on scheme assets	35.8	(18.7)
Contributions by employers	9.5	8.4
Contributions by scheme participants	2.1	3.3
Benefits paid	(10.9)	(13.1)
Assets distributed on settlements	-	(0.9)
Transfers in/out	0.7	-
Gross assets at 31 March	**340.7**	**337.5**

Amounts recognised in the financial statements

Amounts recognised in the Statement of Revenue and Expenditure are as follows:

	Unfunded	Funded (net)	2020-21 Total	2019-20 Total
	£bn	£bn	£bn	£bn
Current service cost	65.1	13.4	78.5	66.6
Past service cost	0.2	0.2	0.4	(0.6)
Settlements/ curtailments	-	-	-	(1.4)
Net financing cost	35.3	8.9	44.2	61.9
Total recognised in the Statement of Revenue and Expenditure	**100.6**	**22.5**	**123.1**	**126.5**

Note 25. Capital commitments

	2020-21	2019-20
	£bn	£bn
Capital commitments at year end	53.4	57.7
Total capital commitments	**53.4**	**57.7**

Capital commitments are future commitments to capital expenditure that are contracted for but not provided for in the financial statements and in 2020-21 totalled £53.4 billion (2019-20: £57.7 billion).

The most significant capital commitments in 2020-21 include those reported by the Ministry of Defence of £23.1 billion (2019-20: £23.8 billion), and Department of Transport £6.2 billion (2019-20: £5.7 billion).

Note 26. Commitments under leases

Operating leases

Total future minimum payments under operating leases are given in the table below, analysed according to the period in which the lease expires.

	2020-21 £bn	2019-20 £bn
Obligations under operating leases comprised:		
Total payments within one year	3.0	3.1
Total payments between one and five years	7.5	7.9
Total payments thereafter	10.9	12.0
Total future minimum lease payments under operating leases	**21.4**	**23.0**

There has been a £1.6 billion decrease in operating leases, from £23.0 billion in 2019-20 to £21.4 billion in 2020-21, mainly driven by missing entities who provided data in 2019-20.

The most significant operating leases relate to the Department of Health and Social Care at £3.5 billion (2019-20: £3.3 billion), Transport for London at £2.1 billion (2019-20: £2.1 billion), HMRC at £1.9 billion (2019-20: £1.9 billion), Department for Work and Pensions at £1.8 billion (2019-20: £1.6 billion), and the Ministry of Justice at £1.6 billion (2019-20: £1.6 billion).

Finance leases

Total future minimum payments under finance leases are given in the table below, analysed according to the period in which the lease expires.

	2020-21 £bn	2019-20 £bn
Obligations under finance leases comprised:		
Total payments within one year	0.7	0.7
Total payments between one and five years	2.2	2.5
Total payments thereafter	20.3	21.6
Total	**23.2**	**24.8**
Less interest element	(15.9)	(16.7)
Total present value of obligations	**7.3**	**8.1**

There has been a £0.8 billion decrease from £8.1 billion in 2019-20 to £7.3 billion in 2020-21. The most significant finance lease relates to the Ministry of Defence at £1.6 billion (2019-20: £1.6 billion) to provision Homes for Services personnel and their families.

Note 27. Commitments under Private Finance Initiative (PFI) contracts

PFI contracts recognised on the Statement of Financial Position

The substance of PFI contracts is that they have three elements: repayments of capital and interest (together representing a finance lease liability), and annual service charges.

PFI assets are recognised on the Statement of Financial Position where the government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the asset at the end of the contract. The net book value of PFI assets included in the Statement of Financial Position was £66.3 billion (2019-20: £46.8 billion) as at 31 March 2021. The PFI liability for the present value of capital amounts payable was £32.6 billion (2019-20: £36.7 billion).

The net present value of PFI obligations is recognised as a liability on the Statement of Financial Position as £32.6 billion whereas in the table below £32.7 billion has been reported. This is because interest charges and annual service charges are not recognised as liabilities in the Statement of Financial Position and are disclosed as commitments. These amounts will be recognised in the Statement of Revenue and Expenditure in the year they become due.

The net present value of PFI obligations represents the liability for capital repayments. The most significant net present value of future finance lease obligations balance of £10.2 billion (2019-20: £10.6 billion) are held by the Department of Health and Social Care and £4.0 billion (2019-20: £4.3 billion) are held by the Ministry of Defence.

The most significant total annual service charges balance of £21.2 billion (2019-20: £22.6 billion) are held by the Department of Health and Social Care, £10.6 billion (2019-20: £12.0 billion) are held by the Ministry of Defence and £7.3 billion (2019- 20: £7.9 billion) are held by the Department for Transport.

Details of the underlying finance lease liability are given in the table below:

	2020-21 £bn	2019-20 £bn
Obligations for future periods arise in the following periods:		
No later than one year	4.1	4.5
Later than one year and not later than five years	15.0	16.8
Later than five years	38.9	45.4
Gross present value of future finance lease obligations	**58.0**	**66.7**
Less interest charges allocated to future periods	(25.3)	(29.6)
Net present value of future finance lease obligations	**32.7**	**37.1**

Details of the minimum annual service charge are given in the table below:

	2020-21 £bn	2019-20 £bn
Obligations for future periods arise in the following periods:		
No later than one year	4.9	5.3
Later than one year and not later than five years	18.1	19.2
Later than five years	47.0	54.0
Total annual service charges	**70.0**	**78.5**

The PFI obligations by segment of government were:

	2020-21 £bn	2019-20 £bn
Central government departments and entities within the NHS	36.5	37.8
Local authorities	20.9	27.9
Public corporations	0.6	1.0
Gross present value of future finance lease obligations	**58.0**	**66.7**

In 2019-20 there were a number of entities that contributed to this note but did not make any submissions to the Whole of Government Accounts in 2020-21. These entities contributed £3.1 billion on the net present value of obligations, £2.8 billion on interest and £5.6 billion on service charges.

PFI contracts not recognised on the Statement of Financial Position

During the 2020-21 financial year, some WGA entities had PFI contracts which were not recognised on the Statement of Financial Position. This is because the private sector contractor was, on balance, considered to have greater control over the use of the asset.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership asset. It concluded that there are none with a significant value that should be included in the 2020-21 WGA that are not already consolidated.

Note 28. Other financial commitments

Commitments from other non-cancellable contracts that are not leases or PFI contracts are as follows:

	2020-21 £bn	2019-20 Restated £bn
Financial commitments expiring in future years:		
No later than one year	34.2	32.5
Later than one year and not later than five years	35.4	34.0
Later than five years	10.4	13.4
Total other financial commitments	**80.0**	**79.9**

Other Financial Commitments relate to non-cancellable contracts which are not leases, PFI contracts, or other service concession arrangements. Significant types of commitment across the WGA include contracts relating to equipment support, estate maintenance, and information and communications support (Ministry of Defence), subscriptions to international bodies (the Department for Business, Energy and Industrial Strategy), a Public Safety Radio Communications Service contract which ran from February 2000 to the end of December 2022 (Home Office), as well as future deliveries and storage of Personal Protective Equipment (PPE), NHS Test and Trace costs, and Research and Development contracts at the Department of Health and Social Care (DHSC). More details on these can be found in the individual entity accounts.

Overall, the 2020-21 total of £80.0 billion is similar to the prior year total of £79.9 billion (restated). The prior year total as disclosed in the 2019-20 WGA was £70.9 billion. This has been restated to £79.9 billion:

- £7.1 billion of this restatement relates to the Department for Levelling Up, Housing and Communities,[31] which had omitted £7.1 billion of financial commitments relating to Homes England from its 2019-20 WGA submission.

[31] During 2020-21, the Department for Levelling Up, Housing and Communities was called Ministry of Housing, Communities and Local Government

- There was also a £1.9 billion upwards restatement of the 2019-20 total in the 2020-21 Department for Education (DfE) accounts. This restatement was caused by additional Education and Skills Funding Agency related Educational Fund commitments which had not been identified before the publication of the 2019-20 DfE accounts or WGA.

While the year-on-year change in the overall note total is negligible, there are individual increases and decreases within that total. This includes additional commitments brought about due to the Covid-19 pandemic. For example, DHSC reported increased commitments of £1.7 billion due to areas such as PPE and NHS Test and Trace. The impact of this on the note total was partly offset by an estimated £1.2 billion reduction in the reported 2020-21 WGA total (figure based on 2019-20 actual submitted amounts) caused by 14 entities which had contributed to this note in 2019-20 but did not make a submission to the WGA in 2020-21.

Note 29. Contingent liabilities disclosed under IAS 37

Quantifiable contingent liabilities

Total quantifiable contingent liabilities are as follows:

	2020-21	2019-20
		Restated
	£bn	£bn
Clinical negligence	48.9	49.7
Taxes subject to change	3.1	2.2
Foreign, Commonwealth and Development Office (FCDO)	3.0	0.6
Transport infrastructure projects	2.1	2.1
Ministry of Defence (MOD)	1.6	0.7
HM Treasury	1.6	1.7
Department for Work and Pensions	1.4	2.3
Pension Protection Fund (PPF)	0.8	3.7
Other	3.6	5.0
Total quantifiable contingent liabilities	**66.1**	**68.0**

The prior year total as disclosed in the 2019-20 WGA was £84.6 billion. This was due to the inclusion last year of £16.6 billion related to "Export guarantees and insurance policies" as reported by United Kingdom Export Finance (UKEF). UKEF's auditors have now confirmed that these amounts do not meet the definition of IAS 37 contingent liabilities, or the requirements of Managing Public Money (MPM), for disclosure as remote contingent liabilities. The prior year comparative figure has therefore been restated to remove this amount.

The 2019-20 'Other' total as disclosed in the prior year WGA was £7.0 billion. The above 2019-20 'Other' total is lower due to the introduction of three new lines (FCDO, MOD and HM Treasury) this year which are no longer included in the 'Other' total, as well as the removal of a line related to EU contingent liabilities (2019-20: £1 billion) which had been separately disclosed last year but the 2020-21 equivalent figure of £0.3 billion has now been included under 'Other'. Other contributors to the 2020-21 "Other" total include the Department for Culture, Media and Sport (£ 0.5 billion, 2019-20: £0.4 billion), Scottish Government (£ 0.5 billion, 2019-20: £0.3 billion), and the Department of Health and Social Care (£0.4 billion, 2019-20: £0.4 billion).

The impact on this note of entities which made submissions to the WGA in 2019-20 but have not made submissions in 2020-21 is immaterial to the WGA.

Individually significant contingent liabilities are detailed below:

Entity	Contingent Liability	2020-21 £bn	2019-20 Restated £bn
Department of Health and Social Care	The Department of Health and Social Care (DHSC) is the actual or potential defendant in a number of actions regarding alleged clinical negligence. Part of this liability has been recognised as a provision (please see Note 22 for further details), and the contingent liability of £47.2 billion (2019-20: £48.2 billion) reflects cases where there is a large degree of uncertainty as to the department's liability and amounts involved. Please note that the £47.2 billion 2020-21 figure shown is as restated by DHSC in their 2021-22 statutory accounts. Please also note that the DHSC current and prior year totals are lower than the "clinical negligence" total in the table above because other WGA entities also report contingent liabilities relating to clinical negligence. This included £1.3 billion reported by the Welsh Government (2019-20: £1.1 billion) and £0.4 billion reported by the Scottish Government (2019-20: £0.4 billion).	47.2	48.2

HM Revenue & Customs (HMRC)	HMRC is engaged in a number of legal and other disputes which can result in claims by taxpayers against HMRC. This covers a range of cases, including Corporation Tax, Income Tax and VAT. As at 31 March 2021, HMRC had five cases estimated to have a value of £3.1 billion (2019-20: 5 cases estimated at £2.2 billion) where potential tax repayment before losses, capital allowances and other tax reliefs is over £100 million. The total value of estimates has increased in 2020-21 due to revised costings and reclassification from provisions due to improved chance of success.	3.1	2.2
Foreign, Commonwealth and Development Office (FCDO)	FCDO holds a number of contingent liabilities, but the largest of £2.9 billion (2019-20: £0.4 billion) are liabilities in respect of contributions due to international organisations. The movement in the year is due to a new capital increase for African Development Bank, the related African Development Fund replenishment, and a new International Development Association (IDA) replenishment. The FCDO expects a high proportion of this amount to crystalise as a liability in the coming years.	3.0	0.6
Pension Protection Fund	The Pension Protection Fund (PPF) steps in to cover pension schemes relating to companies which are insolvent. The total value of claims on the PPF identified by their Actuary as reasonably foreseeable was £0.8 billion for 2020-21 (2019-20: £3.7 billion as disclosed in the 2019-20 PPF accounts and WGA, restated in the 2020-21 PPF accounts to £1.7 billion). As stated above, a 2019-20 total of £3.7 billion was stated in the 2019-20 WGA and PPF accounts, but has now been restated to £1.7 billion in the PPF accounts. It has not been restated above as it is not material to the WGA. It does however explain £2.0 billion of the £2.9 billion year-on-year decrease showing above. The restatement is due to a change to the method used by PPF to calculate these liabilities. The new method uses statistical modelling techniques to assign a probability of insolvency to the sponsoring employer of a scheme, which when combined with any underfunding and aggregated across all schemes provides a best estimate of the expected value of claims within the next 12 months. In addition to the impact of the prior year restatement, the remaining £0.9 billion	0.8	3.7

	reduction over the year reflects both an improvement in funding in the universe which PPF protects as well as a reduction in expected insolvencies over the year ahead.		

Non-quantifiable contingent liabilities

Commitments in relation to pension scheme deficits

Non-quantifiable contingent liabilities have arisen as a result of commitments made by several WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded.

Ministry of Defence

The Ministry of Defence has a number of non-quantifiable contingent liabilities which include: third party indemnities for damage caused by live missile firing on overseas ranges; potential costs of decontamination work on sites yet to be identified; potential liabilities that arise from in-service mortality rates in excess of those covered by the Service Life Insurance scheme; potential liabilities relating to environmental and safety responsibility for a large number of shipwrecks both in UK waters and globally; and losses or claims in relation to the International Ocean Towage Agreement. Further details of these non-quantifiable contingent liabilities can be found in the Ministry of Defence's 2020-21 annual report and accounts.

Liabilities in respect of the Covid-19 Vaccination Programme

The Department of Health and Social Care (DHSC) holds contingent liabilities relating to contracts signed with Pfizer/BioNTech and with AstraZeneca/Oxford for their Covid-19 vaccines.

DHSC also provided a time limited clinical negligence indemnity to community pharmacy to enable them to engage at pace with the Covid-19 vaccination programme. Community pharmacies are not covered by state indemnity and are obliged to obtain their own commercial insurance. Due to the requirement to provide cover for this risk at such short notice, state indemnity was agreed.

Legal claims

Non-quantifiable contingent liabilities have arisen as a result of several legal claims, compensation claims, and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Ongoing litigation

In March 2018, the European Commission alleged that from 2011 to 2017 the UK did not take adequate steps to prevent customs undervaluation fraud and €2.7 billion of customs duty was therefore owed to the EU. Following correspondence between the UK and the Commission, the case was referred to the European Court of Justice (CJEU). The case was heard on 8 December 2021 and on 8 March 2022 the Court found against the UK on almost all liability points. However, the Court found that the Commission had failed to prove the specific sums which should have been paid by the UK, although it stated that the Commission would be entitled to recalculate the figure owed. The Commission's revised estimate of the liability had not yet been received at the time of the publication of the 2020-21 Consolidated Fund Account in October 2022.

Following the judgment, the UK is liable for both outstanding customs duties and interest. This could potentially be 16% plus Bank of England base rate and accrues in the absence of any payment. With this in mind, and in order to protect UK taxpayers from significant continued interest accrual, on 10 June 2022 the UK made a payment on the principal amount to the European Commission of €0.7 billion (£0.6 billion). This paid in full the amount the UK considers due regarding cancelled customs assessments to the end of 2014 and, in respect of the subsequent period, represents the amount the UK considers due at this time, in light of the CJEU judgment, thereby stopping interest accruing on this amount. As at October 2022 the UK is awaiting the Commission's recalculation and will consider it carefully once received.

Horizon 2020 Funding

In July 2018, the UK Government announced an extension of its guarantee of EU-funded projects after the UK left the EU. The guarantee was originally announced in 2016. The UK left the EU on 31 January 2020. Under the terms of the Withdrawal Agreement, the European Union can exclude UK participation in Horizon 2020 EU-funded grants which involve security-related sensitive information. This means that for security related projects under the Horizon, as at 31 March 2021 there was a doubt over continued EU funding. The guarantee in relation to Horizon 2020 is unquantifiable due to the European Commission administering and holding the information in relation to the scheme. There are uncertainties around the total amount that may be payable if the settlement were to occur.

Quantifiable Contingent Assets

IAS 37 – Provisions, contingent liabilities and contingent assets – requires the disclosure of contingent assets, defined as:

- A possible asset that arises from past events, and
- Whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

Contingent assets are not recognised but are disclosed where an inflow of economic benefit is probable. Once the realisation of income is certain, the asset is no longer a contingent asset and is recognised at this time.

Individually significant Contingent Assets reported by WGA entities in 2020-21 are detailed below:

Entity	Contingent Asset	2020-21 £bn	2019-20 £bn
Department for Business, Energy and Industrial Strategy (BEIS)	BEIS holds a contingent asset of £1.8 billion is relation to the British Coal Staff Superannuation Scheme (BCSSS). Within 12 months of 31 March 2033, the trustees of the BCSS shall pay the Secretary of State any surplus remaining on the scheme, net of any amount retained for the obligation. Based on the Government Actuary's estimate of a £1.8 billion surplus as at 31 March 2018, BEIS considers a receipt from the scheme to be probable.	1.8	1.8
HM Treasury	Under Article 141 of the Withdrawal Agreement the UK is entitled to a share of EU fine income that relates to activity up to the end of 2020 (and in some cases after this period) including where collection of the fine income arises post UK exit. A contingent asset is disclosed in relation to the fine income where the likelihood of cash inflow is dependent on the EU successfully winning the case and this likelihood is assessed to be probable. At 31st March 2021 HM Treasury's best estimate of the contingent asset related to fine income was c.£1.5bn (2019-20: £1.6bn). In 2019-20 HM Treasury also held contingent assets under Article 136 (£0.1bn) and Article 140 (£0.2bn). Following the end of the transition period these are no longer contingent assets and appear under Trade and other receivables.	1.5	1.9
Other	Other Contingent Assets	0.2	0.4
Total Quantifiable Contingent Assets		**3.5**	**4.1**

Note 30. Remote contingent liabilities reported to Parliament

In addition to the contingent liabilities reported in Note 29, government departments additionally disclose contingent liabilities where the risk of the liability crystallising is remote. These remote contingent liabilities are not required to be disclosed under accounting standards but are reported here on the basis that guarantees, indemnities and letters of comfort are a source of financial risk.

Quantifiable remote contingent liabilities

The potential costs of the government's quantifiable remote contingent liabilities are as follows:

	1 April Total	Increase / (Decrease) in year	Liabilities crystallised in year	Obligations expired in year	31 March 2021 Total
	£bn	£bn	£bn	£bn	£bn
Pension Protection Fund (PPF) remote contingent liabilities	250.0	(87.4)	(0.4)	(22.2)	140.0
Guarantees (excluding European Investment Bank (EIB))	40.6	(0.1)	-	(14.5)	26.0
Indemnities	32.5	2.4	-	(1.4)	33.5
Letters of comfort	24.8	8.8	-	-	33.6
EIB Guarantees	31.6	-	-	(0.9)	30.7
Total remote contingent liabilities	**379.5**	**(76.3)**	**(0.4)**	**(39.0)**	**263.8**

There is no impact on this note of entities which have not made data submissions to the WGA in 2020-21 and which submitted data in 2019-20.

Individually significant remote contingent liabilities are detailed below:

Entity	Contingent Liability	2020-21 £bn	2019-20 £bn
Pension Protection Fund (PPF)	**Pension Protection Fund (PPF) contingent liabilities** Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2021 is estimated at £140 billion, calculated on the same basis as for the PPF	140.0	250.0

	7800 index. The PPF 7800 Index is an established official statistic which has been published by the PPF since 2007. It indicates the latest estimated funding position for the defined benefit (DB) pension schemes in the PPF's eligible universe. More information on the PPF 7800 index can be found on the PPF website - https://www.ppf.co.uk/ppf-7800-index. The reported remote contingent liability therefore increases or decreases in line with changes to the index. While the total as at 31 March 2020 was significantly higher at £250 billion, the total as at 31 March 2019 was more in line with this year's total at £180 billion. The current year total is not therefore considered to be a significant outlier.		
HM Treasury	**Guarantees – European Investment Bank (EIB)** The UK is liable for callable capital to the EIB. The terms of this are set out in Article 150 of the EU Withdrawal Agreement. The UK's liability is limited to the callable and returned paid in capital the UK held as a member state. This amount was previously included in the WGA through the Consolidated Fund. However, under the EU Withdrawal Act, any calls on contingent liabilities which take place after 31 March 2021 will be funded by HM Treasury through the supply process.	30.7	31.6
Foreign, Commonwealth and Development Office (FCDO)	**Guarantees** £14.2 billion of this contingent liabilities total (2019-20: £16.3 billion) relates to callable capital on investments in International Financial Institutions (IFIs). These are subject to call only when required and to the extent necessary to meet the obligations of the IFIs on borrowings of funds or guarantees. No call has ever been made on the IFIs' callable capital stock to date. This remote contingent liability total was disclosed under the Department for International Development in the 2019-20 WGA, prior to merging with the Foreign and Commonwealth Office to form FCDO.	14.5	16.6
HM Treasury (Consolidated Fund account)	**Guarantees - Coins** The Consolidated Fund holds a remote contingent liability for the value of UK coins in circulation, which was £4.7 billion as at 31 March 2021 (2019-20: £4.7 billion). This relates to returned and damaged coins, and coins that are redeemed. The value of returned, damaged and redeemed coins paid in 2020-21 was £22.2 million (2019-20: £33.7 million). The probability of a material liability in respect of coinage is considered remote.	4.7	4.7
HM Treasury	**Guarantees - EU member state loans** The prior year total of £10.6 billion was as	-	10.6

(Consolidated Fund account)	reported in the 2019-20 Consolidated Fund accounts. It represented the UK's maximum liability as at 31 March 2020 from outstanding loans to EU member states, third countries and private sector entities for which the risk is ultimately borne by the EU Budget. Loans have been issued under the following initiatives: the European Financial Stabilisation Mechanism; the Guarantee Fund to Third Countries, and the European Fund for Strategic Investments. The terms of this arrangement are set out in Article 143 of the withdrawal Agreement. Any calls on the UK's contingent liabilities for loans guaranteed by the EU budget that fall after 31 March 2021 will be funded by HM Treasury, not from the Consolidated Fund. Therefore, the Consolidated Fund's contingent liability as at 31 March 2021 is nil. These have not been assessed as contingent or remote contingent liabilities this year by HM Treasury as at 31 March 2021, so are also not recorded as such in the 2020-21 WGA.		
Department for Education (DfE)	**Indemnities - Academy-sector PFI contracts** The figures shown relate to Private Finance Initiative (PFI) arrangements. These remote contingent liabilities arise as a result of DfE agreeing to provide an indemnity to local authorities for potential costs PFI providers on buildings they own but manage through existing PFI arrangements. The properties are used by academies. This type of indemnity is considered low risk and is only a feature of the academy programme in very specific circumstances.	9.3	9.3
Department for Transport (DfT)	**Indemnities - Inter City Express Rolling Stock** In 2012 the Secretary of State agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the Inter City Express Rolling Stock contracts with Agility Consortium and previously with Network Rail, covering the termination of the contract due to force majeure events and unavailability of commercial insurance. They expire in 2043.	5.9	5.9

Department for Digital, Culture, Media and Sport (DCMS)	**Indemnities** The figures shown include the Government Indemnity Scheme (GIS). The GIS indemnifies lenders to museums, galleries and other institutions in the UK when mounting exhibitions or taking long-term loans for either study or display. It is a statutory liability totalling £5.2bn (2019-20: £7.8bn). The change in contingent liabilities arising from these indemnity schemes is driven by the number and value of the works of art on loan and those on long term loan, which changes from year to year. The decrease of £2.6bn is due to Covid-19 and the closure of museums and galleries in line with Government restrictions.	5.5	8.2
Department for Transport (DfT)	**Indemnities - High Speed 1 (HS1)** The HS1 Concession Agreement specifies that compensation would be paid if the contract were terminated due to legal changes, either in the UK or Europe ('Change in Circumstances') or a change directed by another part of the Government ('Government Change'). The amount payable is formalised in the Agreement, but depends on the cause of the termination, and includes capital expenditure, increases in operating costs and losses of revenue.	4.0	4.7
HM Treasury	**Letters of Comfort** To facilitate each sale of UK Asset Resolution (UKAR's) Bradford and Bingley (B&B) and Northern Rock Asset Management (NRAM) assets, HM Treasury has offered certain market standard warranties that have created remote contingent liabilities. The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the warranties. Given their nature, such occurrence is considered remote. On 26 February 2021, the Treasury announced the sale of Bradford & Bingley plc (B&B), NRAM Limited and their remaining assets. This resulted in new remote contingent liabilities totalling £11.8 billion. This is partly offset by year-on-year movements in other items, including items reported in the 2019-20 WGA which have now closed as a result of the final sale of the related assets.	33.6	24.8

Non-quantifiable remote contingent liabilities

Remote contingent liabilities can also be unquantifiable. The most significant liabilities are detailed below:

EU Withdrawal Agreement

The UK is liable under the Withdrawal Agreement for its share of the contingent financial liabilities of the Union arising from the financial operations (budgetary guarantees and financial assistance programmes) decided upon or approved by 31 January 2020, the date that the UK left the EU.

HM Treasury’s quantifiable contingent liabilities related to the European Investment Bank (EIB) are disclosed above. In addition, HM Treasury discloses an unquantifiable remote contingent liability for any other liabilities that may ultimately fall to HM Treasury as result of the implementation of the Withdrawal Agreement.

Further information on the financial impact of EU Withdrawal Agreement is included in WGA Performance Report, in the 2020-21 HM Treasury accounts, and at Annex E of the “European Union Finances” publication series (the ”European Union Finances Statement 2020” can be found at https://www.gov.uk/government/statistics/european-union-finances-statement-2020).

Environmental clean-up– oil and gas industry

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

As part of the terms of becoming a participator in a licence in the UK or UK Continental Shelf, companies have a statutory obligation to decommission their operations properly once oil and gas production has ceased. The Deeds provide companies with greater certainty in respect of decommissioning tax relief, supporting the government’s objective of maximising economic production of oil and gas reserves in the UK Continental Shelf. They are designed to free up capital that companies would otherwise have held in reserve against possible changes in tax rules.

As at 31 March 2021, 98 Deeds had been signed and were in force (2019-20: 96). These Deeds indemnify the companies for changes in tax legislation or the default of joint venture partners in respect of their decommissioning activities.

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

Environmental clean-up - Nuclear

The Department for Business, Energy and Industrial Strategy (BEIS) has the following remote contingent liabilities in place in relation to potential nuclear related environmental clean-up costs.

The Nuclear Liabilities Fund was established in 1996 to meet certain costs of decommissioning eight nuclear power plants in the UK that have been owned and operated by EDF Energy Nuclear Generation Limited since 2009. A constructive obligation was created in 2002 when the government undertook to underwrite the Fund in respect of these liabilities to the extent that the assets of the Fund might fall short; any surplus generated by the Fund would be paid over to the government once the liabilities have been met. The total undiscounted estimated liability as at 31 March 2021 of £23.5 billion (31 March 2020: £23.3 billion) has a present value of £23.8 billion (31 March 2020: £24.1 billion). The value of the Fund as at 31 March 2021 is £14.7 billion (31 March 2020: £9.4 billion). It is not possible to quantify the extent to which the Fund might be in deficit or surplus with respect to the liabilities as at 31 March 2021 given the high level of uncertainty relating to estimation of decommissioning costs and investment returns on Fund assets over a future period exceeding 100 years.

Also, a contingent liability exists in relation to the costs of retrieving and disposing of sealed radioactive sources under the Environmental Permitting (England and Wales) Regulations 2016 in the event that a company keeping such sources becomes insolvent.

In addition to this, a contingent liability arises in relation to the remediation of land contaminated by a nuclear occurrence as it is deemed appropriate for BEIS to bear responsibility under section 9 of the Radioactive Contaminated Land (Modification of Enactments) (England) (Amendment) Regulations 2007 SI 2007/3245.

Other Nuclear

Indemnities have been given to UK Atomic Energy Authority by the Department for Business, Energy and Industrial Strategy (BEIS) to cover indemnities given to carriers and British Nuclear Fuels plc against certain claims for damage caused by nuclear matter in the course of carriage.

BEIS also has a statutory liability which would arise under the Nuclear Installations Act 1965 for third-party claims in excess of the operator's liability in the event of a nuclear accident in the UK, as well as a contingent liability in relation to the possibility of claims for any exposure to ionising radiation arising from the fusion activities of the UK Atomic Energy Authority.

BEIS also provides protections in certain scenarios where the Hinkley Point C nuclear plant is shut down for reasons that are political or certain changes in law and insurance contracts.

Contingent liabilities for reinsurance arising from acts of terrorism

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies providing terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption in the United Kingdom. HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. These arrangements are set out in the Reinsurance (Acts of Terrorism) Act 1993.

Maximum potential liabilities under this arrangement are considered unquantifiable as there is no past experience to use in forming an estimate, and the size and scale of a potential terrorist incident cannot be predicted. It is also considered remote that circumstances would arise requiring HM Treasury to provide such financial assistance.

Regional development banks and funds

The Foreign, Commonwealth and Development Office (FCDO) has entered into unquantifiable contingent liabilities relating to maintenance of the value of subscriptions paid to capital stock of regional development banks and funds. This unquantifiable remote contingent liability was disclosed in last year's WGA under the FCDO's predecessor body, the Department for International Development which merged with the Foreign and Commonwealth Office to form FCDO.

Department for Transport

The Department for Transport is party to a North Atlantic Treaty Organisation (NATO) agreement relating to indemnification of civil aircraft in respect of their use on NATO tasks in times of crisis and war.

Also, the department has a statutory responsibility for the maintenance of all railway structures. The contingent liability for this responsibility applies to structures that have been sold to, and are controlled by, third parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

British Telecom (BT) pension scheme

When BT was privatised in 1984 the government gave a guarantee (contained in the Telecommunications Act 1984) in respect of certain liabilities of the privatised company. Following High Court and Court of Appeal proceedings on the terms and scope of the Crown Guarantee, which would only apply if BT were to enter insolvent winding-up, the contingent liability is approximately the size of the BT pension scheme (BTPS) deficit. The last triennial actuarial valuation of the pension scheme as at 30 June 2020 valued the deficit at £7.98 billion. BT has closed the BTPS for future accruals of benefit from 1 June 2018. As a result, the liabilities covered by the Crown guarantee will be limited to those relating to benefits accrued before that date (together with indexing and any legally required increments). These liabilities remain with BT plc and so legislation is no longer required on the scope of the guarantee. The contingent liability largely consists of the considerable deficit on the BTPS fund but, providing BT takes steps to reduce that, possible growth in the liability should now be limited.

Student loan sales

Each sale of student loans necessitated separate but similar warranties and indemnities to secure interest and obtain value for money from investors into the securitisation transactions.

These contingent liabilities are in place because the terms of the loans remain within government control, and there is nothing investors can do to influence this.

Further details can be found in the accounts of the Department for Education.

Schools and academies

As a result of entering directly into a PFI arrangement for the building of schools (PF2), the Department for Education (DfE) has a number of contracts in place which have clauses that could give rise to a liability for DfE. These are considered by DfE to be remote and unquantifiable as they relate to breach of contractual conditions.

In addition to this DfE has contracts for academy and free school site purchases, including a number of overage clauses.

These are considered by DfE to be remote and unquantifiable as they relate to breach of, or change to, contractual conditions.

National Health Service

The Department of Health and Social Care (DHSC) has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There were 10 unquantifiable indemnities as at 31 March 2021, some of which were with entities within the DHSC group. None of these are a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Further details can be found in the DHSC accounts.

Covid-19 - vaccine manufacturing

As at 31 March 2021, the Department for Business, Energy and Industrial Strategy (BEIS) was responsible for indemnities related to vaccine manufacturing defects. These indemnities are for any adverse reactions to the vaccine candidates that could not have been foreseen through the robust checks and procedures that were put in place. The Government announced on 1 March 2021 the joint unit for the Vaccine Taskforce between BEIS and the Department of Health and Social Care (DHSC), which specifies that DHSC will assume practical responsibility for these indemnities from 1 August 2021. The responsibility for these indemnities formally transferred to DHSC following the Machinery of Government change in 2021-22.

BAE Systems PLC

Under section 9 of the British Aerospace Act 1980, the government is liable to discharge any outstanding liability of BAE Systems plc which vested in the company on 1 January 1981 in the event of it being wound up other than for the purpose of reconstruction or amalgamation.

UK Space Agency

UK Space Agency has an unquantifiable contingent liability arising from the international United Nations convention which requires the UK government to be ultimately liable for third party costs from accidental damage arising from UK space agencies.

Ministry of Defence

Under contract terms, the Ministry of Defence (MOD) may indemnify or limit a contractor's liability in relation to a specific area. This includes damage to government property, damage to issued property, default, deferment, termination and indirect and consequential losses. This includes liabilities that are unquantifiable.

Indemnities have been provided to several companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965.

An unquantifiable indemnity has also been issued to Rolls-Royce Power for the non-insurance of the Rolls-Royce Core Factory and the Neptune Test Reactor facility, for death and personal injury to a third party.

The MOD also has other liabilities where details are not given due to reasons of commercial and / or national security. Some of these are unquantifiable.

State pension age changes

Women born after 5 April 1950 are affected by changes in State Pension age introduced by the Pensions Act 1995. Some of those women are also affected by further changes made in subsequent Acts.

The changes in the Pensions Act 1995 provided for the State Pension age for women to increase from 60 to 65 over the period April 2010 to 2020. The changes in the subsequent Acts brought forward that increase to 65 and also increased State Pension age beyond 65. These changes have given rise to litigation with some women born in the 1950s arguing they have been discriminated against and that they received a lack of appropriate notification.

On 15 September 2020, the Court of Appeal gave judgement on a claim for judicial review based on discrimination on grounds of age and / or sex as well as appropriate notification. The Court of Appeal dismissed the claim on all grounds and on 26th March 2021 permission to appeal to the Supreme court was denied. As at 31st March 2021 the Department for Work and Pensions (DWP) was waiting to hear if the appellants were going to appeal to the European Court of Human Rights.

The Parliamentary and Health Service Ombudsman is also investigating six sample complaints around maladministration in the Department's communication of changes to women's State Pension age. This investigation remains confidential.

Legal claims

Non-quantifiable remote contingent liabilities have arisen as a result of legal claims, compensation claims, and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Underwrite of the Commonwealth Games

The UK government was successful in its bid for the 2022 Commonwealth Games. As part of the successful bid to host the Games, the Department for Digital, Culture, Media and Sport (DCMS) took on a contingent liability by guaranteeing to financially underwrite the organisation and staging of the Games. As such, DCMS would meet any potential financial shortfall of the Birmingham Organising Committee for the 2022 Commonwealth Games Ltd. As at 31 March 2021 any liability was unquantifiable.

In addition, the Commonwealth Games Federation required a series of guarantees from central and local government to support the planning and delivery of the Games. The underwrite and guarantees were disclosed to Parliament in a departmental minute in October 2017.

Note 31. Related party transactions

Related parties in the context of WGA are public sector entities that would ordinarily be consolidated into WGA but have not been consolidated into the 2020-21 WGA. Further information regarding non-consolidated entities can be found in Annex 2 (section 2) and Annex 3 to the account.

NatWest Group (previously Royal Bank of Scotland Group) is the most significant WGA related party. NatWest's share capital is partially owned by HM Treasury but not consolidated into WGA. Dividends and other income received from NatWest are recorded in the Statement of Revenue and Expenditure (SoRE). A dividend of £208 million (ordinary dividend of 3.0p per share) was paid to HM Treasury in May 2021, based on the government's shareholding as of 26 March 2021.

NatWest enters into transactions with many WGA bodies which include the payment of taxes – principally UK corporation tax and VAT, national insurance contributions, local authority rates, and regulatory fees and levies. For further details see the related parties note to the NatWest Group Annual Report and Accounts 2020. Note 2.1 sets out the estimated effect of excluding NatWest from the WGA consolidation, including estimated elimination adjustments. The estimated adjustment to assets and liabilities of £116.0 billion largely relates to cash held at the Bank of England by NatWest, together with NatWest’s holdings of Treasury bills and UK debt securities.

In addition, during normal business, WGA entities entered arms-length banking transactions with NatWest, including loans, deposits, reimbursement of related expenses, payment of management fees, interest receipts and dividends. The volume and diversity of these transactions make comprehensive disclosure impractical.

Some **entities that would ordinarily be consolidated** into WGA did not submit their financial data for consolidation in time (see Note 1.3 for details). 155 bodies did not submit data, of which 128 were local authorities. As these bodies are part of the public sector but not consolidated into WGA they are considered to be related parties, and had transactions and balances with consolidated entities which are material in aggregate.

The most significant balance is loan liabilities between these local government entities and the Public Works Loan Board (PWLB), which is consolidated into WGA. These receivables totalled £16.7 billion as at 31 March 2021, with the largest balance of £1.4 billion relating to Woking Borough Council. As these local government entities are treated as external to WGA, the related assets held by PWLB are not eliminated and therefore remain in the reported WGA totals.

Aside from the PWLB, other bodies consolidated into WGA reported assets totalling £4.5 billion and liabilities totalling £3.4 billion where the counterparty did not submit data and so is a related party of WGA. Similarly, WGA recognises expenditure of £28.3 billion relating to bodies which did not submit data. £24.0 billion of this expenditure consisted of current grants to local government entities, with the largest contributors being the Department for Levelling Up, Housing and Communities[32] and Department for Education.

Local government entities consolidated into WGA had transactions with municipal ports, airports, and parish councils, primarily through the provision of funding. They also had transactions with local government pension schemes and record their share of the scheme's assets and liabilities in their accounts.

The twelve **train operating companies** who held franchise agreements with the Department for Transport (DfT) are private companies and were previously classified to the private sector by ONS. In March 2020, in response to the impact of Covid-19 on public transport, DfT implemented Emergency Measures Agreements (EMAs). This was as a result of the rapid revenue loss to train operators, making their existing franchise agreements untenable. Implementation of the EMAs passed substantially all cost and revenue risk from the train companies to DfT. In response, to this, ONS reclassified these twelve train operating companies as public corporations within the public sector, with effect from 1 April 2020.

EMAs were replaced by the Emergency Recovery Measure Agreements (ERMAs) in September 2020. Under the ERMAs, DfT continues to hold the same powers that led to the reclassification by ONS. Given the similarity of the EMAs and ERMAs, the amounts paid under the different agreements for 2020-21 are not separated below.

DfT also owns 100% of the shares in LNER and Northern Trains Ltd (NTL). Although LNER and NTL operate under different agreements with DfT, the transactions between DfT and these companies have also been significantly impacted by Covid-19 and are therefore included in the table below for reference.

Contract type with DfT in 2020-21	Expenditure for 2020-21 (£bn)	Expenditure for 2019-20 (March 2020 only) (£bn)
EMA and ERMA	7.1	0.3
Services agreement	1.4	0.1
Total	**8.5**	**0.4**

[32] During 2020-21, the Department for Levelling Up, Housing and Communities was called Ministry of Housing, Communities and Local Government

The train operating companies under EMAs and ERMAs operate the following contracts:

Company name	Operating contract
The Chiltern Railway Company Limited	Chiltern
XC Trains Limited	Cross Country
Abellio East Anglia Limited	East Anglia
Abellio East Midlands Limited	East Midlands
Trenitalia c2c Limited	Essex Thameside
First Greater Western Limited	Great Western
London and South Eastern Railway Limited	South Eastern
First MTR South Western Trains Limited	South Western
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern
First TransPennine Express Limited	TransPennine Express
First Trenitalia West Coast Rail Limited	West Coast Partnership
West Midlands Trains Limited	West Midlands

The two State-owned rail companies operate the following contracts under services agreements:

Company name	Operating contract
Northern Trains Limited	Northern
LNER Limited	East Coast

Note 32. Events after the reporting period

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

UK Infrastructure Bank

On 17 June 2021, the UK Infrastructure Bank was launched to catalyse private investment in projects across the UK. In total, the Bank will have £22 billion of financial capacity to deliver on its objectives, consisting of £12 billion of equity and debt capital and the ability to issue £10 billion of guarantees. The Bank will be able to recycle capital and reinvest returns. This will enable the Bank to scale up its balance sheet over time.

NatWest

On 29 March 2022 the government announced the disposal of £1.2 billion worth of government-owned NatWest Group plc (formerly RBS) shares, representing approximately 4.9% of the company. The government's remaining shareholdings represents approximately 48.1% of voting rights in the company, meaning that for the first time since the financial crisis NatWest is no longer under majority public ownership. This is the fifth large block sale of NatWest shares undertaken by the government, following previous disposals in August 2015, June 2018, March 2021 and May 2021.

Date of Sale	28 March 2022	11 May 2021
Total Proceeds	£1.2 billion	£1.1 billion
Government stake post-sale (as % of total voting rights)	48.1%	54.8%

McCloud remedy

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. The main purpose of the Act is to support implementation of the McCloud remedy in the public service pension schemes. The cost of providing the additional pension benefits under the Government's remedy proposals is estimated at £17 billion for the unfunded schemes (excluding administration costs), based on 2016 valuation data.

Academy school buildings

The Department for Education published a new policy paper in April 2022 - Sustainability and climate change: a strategy for the education and children's services systems – which is expected to have a significant impact on build costs going forwards. This will impact costs for new academy school buildings, but as valuation is undertaken on a DRC basis, it is also anticipated to have a wider impact on the valuation of the existing estate. The effect on WGA has not been quantified but is expected to be material.

Bank of England Asset Purchase Facility

On 5 May 2022 the Chancellor and the Governor of the Bank of England agreed to reduce the authorised maximum size of the Bank of England Asset Purchase Facility Fund (BEAPFF) from £895 billion to £866.6 billion, of which up to £19.6 billion can be corporate bonds. The reduction represents the reduction in assets supported by the BEAPFF, following the Bank's decision to unwind the BEAPFF in February 2022.

Recovery Loan Scheme

The Recovery Loan Scheme aims to facilitate access to debt finance for UK businesses as they recover from the disruption of the Covid-19 pandemic. The scheme was extended to borrowers on 1 August 2022, with maximum borrowing per GB business of £2 million and £1 million for NI Protocol businesses, with loan facilities made available for a period of three months to six years. The Department for Business, Energy & Industrial Strategy will assume 70% of the credit risk incurred by accredited lenders from lending under the scheme. The scheme is scheduled to close on 30 June 2024 and deployment will be capped at £6 billion over the next two years, creating an exposure to potential lender claims of up to £4.2 billion.

Energy Bills Support scheme

On 29 July 2022, Department for Business, Energy & Industrial Strategy published funding details for licensed domestic electricity suppliers, to provide discounts or refunds to eligible domestic electricity customers, between October 2022 and March 2023. The discount covers a period of 6-months and is estimated to cost £11.7 billion for Great Britain.

Energy Price Guarantee

On 8 September 2022, the government announced the Energy Price Guarantee for domestic users on existing variable and fixed rate tariffs to take effect from 1 October 2022 across Great Britain and 1 November 2022 in Northern Ireland. A further announcement on 17 October 2022 stated the scheme is expected to run to April 2023. Under the Energy Price Guarantee, a typical UK household on a variable tariff will pay £2,500 a year on energy bills. This is achieved by limiting the price suppliers can charge customers for units of electricity and gas. The government has agreed to compensate suppliers for the discounts applied to consumer tariffs (being the difference between the unit cost determined by the government under the Energy Price Guarantee) and a reference price (representing the maximum reasonable price suppliers could otherwise have charged). The reference price for initial payments will be the default price cap announced by Ofgem on 26 August 2022, however future reference prices have yet to be determined.

Energy Bill Relief Scheme

On 21 September 2022, the government announced the Energy Bill Relief scheme for non-domestic customers in Britain, to run between 1 October 2022 and 31 March 2023, providing a discount on gas and electricity unit prices. The discount will be calculated on the estimated wholesale portion of the unit price, compared to a baseline 'government supported price' which is lower than expected wholesale prices. Suppliers will apply reductions to the bills of all eligible non-domestic customers, and the government will compensate suppliers for the reduction in wholesale prices passed onto non-domestic customers.

Cost of Living Package

To manage the cost-of-living-crisis, the chancellor announced £94 billion worth of measures between 2022-23 and 2023-24. An average of £3,300 for every household in the country, representing the largest support package in Europe, comprising of the Energy Price Guarantee, one-off support, and the uprating of benefits with inflation.

Machinery of Government

On 7 Feb 2023 the Prime Minister announced the formation of four new departments after disbanding BEIS:

- Department for Business and Trade (DBT) is established to champion free trade and promote investment.
- Department for Energy Security and Net Zero (DESNZ) is established to focus on sustainable and affordable long-term energy supplies.
- Department for Culture, Media and Sport (DCMS), has now been streamlined to focus on creative arts, following the separation of its Digital Function, now embedded in with DSIT.
- Department for Science, Innovation and Technology (DSIT) will inherit the Digital function from DCMS, and some Cabinet Office functions such as UK Space Agency, which will enable it to achieve its agenda for driving innovation.

Transfer of Debt management function

On 30 Mar 2023 the Prime Minister announced the Debt management function will transfer from Cabinet Office to HM Treasury to improve the management of debt owed to the government and provide strong expertise and leadership for the public servants in its profession.

Transfer of the Fraud Act function

On 30 Mar 2023 the Prime Minister announced the Fraud Act function will transfer from Ministry of Justice to the Home Office to allow a single department to hold responsibility for policy and legislation relating to fraud against individuals and businesses, enabling the Home Office to best tackle fraud and reduce inefficiencies.

Note 33. Gold holdings

	2020-21 £bn	2019-20 £bn
Opening balance	12.8	9.9
Additions	-	-
Impairments	-	-
Revaluations	(0.5)	2.9
Disposals	-	-
Total gold	**12.3**	**12.8**

The Exchange Equalisation Account (EEA) is an account that holds the UK's reserves of gold, foreign currencies, and IMF Special Drawing Rights. During the 2020-21 financial year the EEA had revalued the monetary value of gold from £1,296 to £1,235 per ounce, a 5% decrease. This has in turn given rise to a £0.5 billion decrease in revaluation lowering the total holdings of gold to £12.3 billion(2019-20: £12.8 billion).

There has been no impact on this note of entities that have not made data submissions to the WGA in 2020-21 which submitted data in 2019-20.

Note 34. Date authorised for issue

The financial statements were authorised for issue on the date of the Comptroller & Auditor General's report.

Chapter 5

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

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

Opinion on financial statements

I certify that I have audited the financial statements of the Whole of Government Accounts (WGA) for the year ended 31 March 2021 under the Government Resources and Accounts Act 2000. The financial statements comprise the consolidated:

- Statement of Financial Position at 31 March 2021
- Statement of Revenue and Expenditure, Statement of Comprehensive Income and Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes, including the significant accounting policies.

These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In my opinion, except for the effects and possible effects of the matters described in the Basis for qualified opinion on financial statements, the financial statements:

- give a true and fair view of the state of the Whole of Government's affairs as at 31 March 2021 and of its net expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Basis for qualified opinion on financial statements

Qualification arising from the non-consolidation of components designated to the public sector

HM Treasury have not consolidated 155 entities which they identified should have been consolidated but which did not submit data. Based on prior year data for the 137 of those bodies that were consolidated in 2019-20, the estimated impact of this is at least £74.3bn on net liabilities, including material understatement of net public sector pension liability by £158.4bn, and property, plant and equipment by £81.6bn; and £26.1bn on net expenditure including material understatement of taxation revenue by £11.7bn, other revenue by £17.5bn, staff costs by £19.0bn, and purchase of goods and services by £19.6bn.

The majority of missing entities are English local government bodies, however the exclusion of two significant Scottish central government pension schemes has had a particularly significant impact.

Given the materiality of these balances to the group I have qualified my opinion in this respect.

Qualification arising from the definition and application of the accounting boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the accounts should present a true and fair view and conform to generally accepted accounting practice, subject to such adaptations as are necessary. HM Treasury has adopted a framework for the accounts which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.3 to the accounts, HM Treasury defines the accounting boundary with reference to those bodies classified as being in the public sector by the Office for National Statistics. It is my view that it would be more accurate to assess the accounting boundary with reference to the accounting standards which require the inclusion of bodies that are subject to control.

I also consider that HM Treasury's accounting policy regarding the basis of consolidation has not been applied consistently in the WGA. A number of significant bodies, including NatWest Group plc, have not been included in the accounts, even though they are classified by the Office for National Statistics as being in the public sector. I consider that these bodies should be included in the accounts in line with applicable accounting standards.

Although I cannot quantify the effect of these omissions on the accounts with certainty, as I do not have the information needed to identify the transactions that require elimination in order to produce a consolidated view of the accounts, I consider that significant transactions and balances have been omitted from the WGA in 2020-21 and from the 2019-20 comparatives. Most significantly affected would be the Statement of Financial Position. The following categories of bodies have been excluded from the WGA; their financial positions reported during 2020-21 illustrate the potential impact such omissions have on the WGA:

- NatWest Group plc, which, as at 31 December 2020, had gross assets of £799.5 billion and gross liabilities of £755.7 billion (gross assets of £723 billion and gross liabilities of £679.5 billion at 31 December 2019);
- other bodies, being predominantly the Further Education Institutions, which have estimated gross assets of £16.5 billion and gross liabilities of £10.6 billion at 31 March 2021 (gross assets of £30.8 billion and gross liabilities of £20.2 billion at 31 March 2020). These other bodies include those not consolidated on the basis of size, and bodies where HM Treasury's assessment of the boundary diverges from that of the accounting standards.

Qualification arising from the inconsistent application of accounting policies

The financial reporting framework that the WGA must follow is set out in the Government Financial Reporting Manual which applies International Accounting Standards (IAS), as adapted for the public sector context. However, a number of bodies consolidated in the WGA do not adopt the same framework. These bodies fall under the following categories:

- bodies in the local government sector that follow the Code of Practice on Local Authority Accounting in the UK;
- bodies that follow either pure IFRS or UK Generally Accepted Accounting Practice (UK GAAP); and
- bodies that follow the Charities Statement of Recommended Practice.

Accounting standards require that where the effect of such inconsistent accounting policies is material, adjustments should be made upon consolidation. HM Treasury has not provided a full analysis of these differences and has not been able to quantify fully the impact of the different accounting frameworks or accounting policies on the WGA, but that impact is known to be material in some areas in 2020-21 and for the 2019-20 comparatives. The most significant example of inconsistent accounting policies concerns assets included in the WGA which have not been valued on a consistent basis, for example infrastructure assets held by local authorities are required to be valued at depreciated replacement cost (DRC) in the WGA but are valued at historic cost by local authorities under the IFRS-based Local Authority

Code. In 2020-21 I estimate the value of this impact to be at least £86.1 billion (£71.8 billion in 2019-20).

Qualification arising from underlying statutory audits of bodies falling within the accounts

The external auditors of the financial statements of a number of bodies that are consolidated into the WGA qualified their audit opinions. Of these, two are significant to the WGA; the qualification of the accounts of the Department of Health and Social Care, and the Department for Environment, Food and Rural Affairs.

The qualification on the Department of Health and Social Care (DHSC) includes one area material to the WGA, being in relation to a lack of records in respect of inventory (£3.6 billion consumables inventory, £6.1 billion inventory consumption, £9 billion impairments recognised) and the associated onerous contracts provision balance (£1.2 billion). DHSC was unable to perform stock takes or provide alternative evidence of the existence, valuation or completeness of inventory held at year end. As a result, I was unable to gain assurance over the accuracy of related expenditure, and of the onerous contract provision which is based on assumptions of the level of excess inventory at year end.

The qualification on the Department for Environment, Food and Rural Affairs relates to the incorrect valuation basis for its operational assets (using Modified Historic Cost instead of Depreciated Replacement Cost) in 2020-21 and for the 2019-20 comparatives, and due to the errors and uncertainties within the Environment Agency's 2020-21 quinquennial revaluation of Property Plant and Equipment. The Departmental Group is in the process of obtaining a full DRC valuation of its operational assets however this was not resolved in time for WGA certification. I do not therefore have assurance that there is not a material misstatement in these balances that are reported in note 12.

Qualification arising from the consolidation of components with non-coterminous year ends

International Financial Reporting Standard 10 'Consolidated financial statements' (IFRS 10) presumes that, in order to present a true and fair view, the accounting reference date for component bodies consolidated into group accounts should be no more than three months different from the date of the group accounts. Where the accounting reference date is different, IFRS 10 requires that component bodies should prepare, for consolidation purposes, additional financial information as at the same date as the group accounts.

In preparing the WGA, HM Treasury has consolidated the Academies Sector Annual Report and Accounts (SARA) prepared by the Department for Education for the year to 31 August 2020. This represents a difference of seven months compared to the accounting reference date of 31 March 2021 for the WGA.

HM Treasury has not complied with the requirements of IFRS 10 in consolidating the SARA in 2020-21 or for the 2019-20 comparatives. In my opinion, the extent of non-compliance has resulted in a level of misstatement and uncertainty, and I am unable to confirm whether this would have a material impact on the WGA. I have therefore qualified my opinion in that respect.

Qualification arising from the consolidation of components whose accounts have not been audited

HM Treasury have included within the Whole of Government Accounts draft accounts data for 120 bodies largely within the Local Government sector. My inquiries of component auditors have highlighted a large number of issues and queries to resolve in testing these balances, and the presence of some unconfirmed uncorrected misstatements. I was therefore unable to gain sufficient assurance in respect of £51.6 billion of Property, Plant and Equipment within the 2020-21 accounts. In 2019-20, the largest balances supported by draft accounts data related to £31.8 billion of Property, Plant and Equipment and £4.7 billion of Investment Properties. Given the materiality of these balances to the group and level of outstanding work within component audits in 2020-21 and for the 2019-20 comparatives, I was unable to obtain sufficient appropriate audit evidence that these Property, Plant and Equipment balances are free from material misstatement.

My report includes further details of the matters leading to my qualified opinion.

Basis for qualified opinion

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

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of the HM Treasury 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.

Emphasis of matter – nuclear decommissioning provisions

I draw attention to the disclosures made in Notes 2.7 and 22 to the financial statements concerning the uncertainties inherent in the nuclear decommissioning provisions. As set out in these notes, given the very long timescale involved and the complexity of the plants and material being handled, considerable uncertainty remains in the estimates of future costs, particularly in later years. Material adjustments could be made to the carrying amount of the nuclear decommissioning provision and related assets and liabilities in the future. My opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the HM Treasury's use of the going concern basis of accounting in the preparation of the WGA 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 Whole of Government'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 WGA is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires 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, the Statement of Accounting Officer's Responsibilities, the Governance Statement and Annex A, but does not include the financial statements and my auditor's certificate thereon. 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 report that I have concluded that there are actual and possible uncorrected material misstatements in the other information, including the comparative information, relating to the matters described in the Basis for qualified opinion on financial statements section above. I have nothing further to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit, the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the WGA and its environment obtained in the course of the audit, I have identified material misstatements in the Performance Report, including within the 2019-20 comparatives, relating to the matters outlined in the Basis for qualified opinion on financial statements.

I report that on the following matters, that in my opinion, based on the findings supporting my qualified opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; and
- I have not received all of the information and explanations I require for my audit.

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

- the financial statements are not in agreement with the accounting records and returns; and
- 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:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- 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 WGA'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 Whole of Government 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 Government Resources and Accounts Act 2000.

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.

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.

My procedures included the following:

- inquiring of management, the head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to HM Treasury'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 HM Treasury's controls relating to the Government Resources and Accounts Act 2000;
- discussing among the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud;
- obtaining an understanding of the framework of authorities, as well as other legal and regulatory frameworks relevant to the WGA, focusing on those laws and regulations that had a direct effect on

the financial statements or that had a fundamental effect on the operations of HM Treasury in the context of the Whole of Government Accounts. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit and Risk Committee concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board; 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 including internal specialists and significant component audit teams 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.

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.

Gareth Davies 18 July 2023

Comptroller and Auditor General

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

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

Introduction

1 The Whole of Government Accounts (WGA) provides the most complete and accurate picture of the financial performance and position of the UK public sector. The WGA, for the year ended 31 March 2021, consolidates the accounts of public bodies from across the United Kingdom including local and central government. The WGA offers a comprehensive financial picture of the UK public sector and has done so since HM Treasury first published it for the year ended 31 March 2010. The WGA is uniquely positioned to provide an overview of public sector spending, and how the public sector's financial landscape is evolving. It offers an important tool not only for managing public finances but for ensuring transparency and accountability.

2 In 2020-21, the UK public sector spent £1,063 billion on public services and collected revenue of £731.5 billion. Of this expenditure £258.4 billion (24.3%) went towards social security benefits, representing an increase of almost £20 billion compared with the prior year. Central Government is £890.9 billion (83.8%) of total expenditure, with the remainder comprising of Local Government at £157.6 billion (14.8%) and public corporations at £14.5 billion (1.4%). Most of government expenditure is financed through taxation, with £650.7 billion of tax receipts over the twelve-month period, £46 billion less than in 2019-20. Individuals pay most of this tax, with Income tax and National Insurance Contributions being the largest tax streams.

3 Increasing delays, significant data gaps, and less reliable data are reducing the quality of the WGA. A good quality WGA provides a timely and comprehensive view of the public finances, and is particularly important given the impact of COVID-19, and the policy responses, on public finances. However, while HM Treasury is taking action to improve the timeliness of future WGAs, the 2020-21 accounts are even later than in the prior year, and publishing nearly 7 months after the statutory deadline. In addition, as I explain in more detail below, the accounts are increasingly reliant on unaudited data as a result of delays in the English local audit market, and are affected by bodies not submitting data to HM Treasury. While the WGA still contains plenty of useful information, the falling data quality reduces the reliability of trend data and comparisons with prior periods. There is a risk of my qualification worsening in future periods without additional corrective action from HM Treasury and others, due to the deteriorating performance of Local Government audit and the planned shortening of the WGA accounts production timetable which could result in the use of increasingly unreliable data.

Key findings

My audit opinion on the WGA

4 I have qualified my opinion on the WGA accounts for the twelfth consecutive year, with six separate reasons for qualification for the year ended 31 March 2021. Compared to 2019-20 I have added an additional reason for qualification this year in relation to the amount of data missing from the WGA. I have also continued to qualify the WGA for the five reasons that I qualified my opinion in 2019-20, being: the consolidation of unaudited accounts data; a disagreement on the accounting boundary; qualifications in underlying accounts; the use of inconsistent accounting policies; and the impact of a different year end for academy schools.

5 A significant number of bodies did not submit data to HM Treasury for inclusion in the WGA, causing me to issue a new qualification of my audit opinion. I have qualified my opinion for the first time in 2020-21 due to the amount of data missing from the consolidation. All bodies should have had draft accounts which they could have used to submit data, as other bodies have. However, a total of 155 entities did not submit data this year, including 137 entities which were consolidated within the 2019-20 WGA. The estimated impact of this is £74.3bn on net liabilities and £26.1bn on net expenditure, with a more detailed analysis provided on p16-22 of the Performance Report. The majority of missing entities are English local government bodies, however the exclusion of two significant Scottish central government pension schemes has a particularly significant impact. Some of these bodies, including the two Scottish Pension Schemes, had audited accounts available. HM Treasury states that the Scottish Pension Scheme did not provide data due to resourcing constraints and an organisational restructure. HM Treasury does not know the reasons for Local Authorities not providing data, and consequently cannot be confident that it will be able to reduce the level of non-compliance with data return deadlines in the future.

6 Local Government Audits are increasingly delayed, leading to an expansion of my qualification of the WGA. I have qualified my opinion for the second year in 2020-21 in relation to the use of unaudited accounts data. This is as a result of 120 bodies (2019-20: 29 bodies), largely within the Local Government sector, where HM Treasury consolidated data from draft accounts following delays in the audit of the underlying accounts. HM Treasury did not obtain information, or undertake analysis, to understand the risk of misstatements within the unaudited draft accounts. I have assessed the risk of misstatement within these accounts through data analysis, review of subsequently published audited accounts, and enquiries of component auditors. Based upon these procedures I am unable to gain sufficient assurance over £51.6 billion of Property, Plant and Equipment. In 2019-20 I included Investment Properties within this qualification, but for the reasons outlined in paragraph 5 much of this data is now missing completely and is therefore covered by a different qualification. There is

a risk of this qualification worsening in future years, with performance in delivering Local Government accounts continuing to deteriorate in 2021-22.

7 Sales of NatWest shares and a statistical reclassification of Further Education Institutions should reduce the scope of my qualification on the misapplication of the accounting boundary in the medium term. The most significant element of my qualification relating to accounting boundaries is HM Treasury's decision to not consolidate NatWest Group plc. However, the Government set out its intention to dispose of all its shares in NatWest Group plc (formally Royal Bank of Scotland Group plc) by 2025-26 in the March 2021 Budget. Government stopped being a majority owner of NatWest Group plc on 28 March 2022 following a £1.2 billion sale of the Government's shares. As a result, the requirement to consolidate NatWest Group plc, the most significant of the bodies currently excluded from the WGA, is expected to end in the coming years. In addition, following a decision by the ONS to reclassify Further Education Institutions to the public sector HM Treasury is now working with the Department for Education to identify a method and timetable to start consolidating these bodies in the WGA. This has the potential to remove the second significant part of this qualification.

8 Changes in the qualifications of underlying accounts have also been reflected in the WGA. In 2019-20 I included qualifications from two departmental accounts within the WGA qualification. Work done by the Ministry of Defence to review leases as a part of implementing IFRS 16 has provided sufficient, reliable information to remove this element of my qualification in 2020-21. The WGA continues to be qualified as a result of the underlying qualifications within the 2020-21 accounts of the Department for Environment, Food and Rural Affairs. My qualifications of the Environment Agency's infrastructure assets and property, plant and equipment will require significant work by the Agency to resolve the underlying issues. I have included a new element to this qualification for 2020-21 in respect of inventory balances held by the Department for Health and Social Care, reflecting the impact of COVID-19.

9 Inconsistencies in the application of accounting policies remain significant. The main cause of this qualification is inconsistent approaches to valuing infrastructure assets in central and local government. HM Treasury are currently leading a review of the valuation of non investment asset valuations across the public sector, and consistency across both central and local government is a key aim. My qualification includes the valuation of non-privatised water infrastructure in Scotland and Northern Ireland, where HM Treasury use regulatory information to adjust valuations but this is not auditable. An area of increasing divergence is in relation to the adoption of the new accounting standard for leases - IFRS 16, with Central Government working towards full implementation in 2022-23 and a confirmation that Local Government will adopt the standard at a date later than the WGA. While HM Treasury was able to make an adjustment this year to

materially address this difference in accounting policies, increasing divergence in coming years will make this significantly more challenging.

10 There has limited progress towards resolving my audit qualification resulting from the consolidation of the Academies sector, and this issue is unlikely to be addressed for several years. HM Treasury and the Department for Education have only recently recommenced discussions on options to resolve the impacts of differing year ends, including aligning the reporting date for academies with the WGA. They made no progress on this matter during the period of the COVID-19 pandemic response. This makes it challenging to prepare sufficiently robust information to show the financial position and performance of academies as at the reporting date.

The WGA Timetable

11 The timeliness of the WGA has deteriorated significantly since the 2018-19 WGA was published in July 2020. The 2020-21 WGA is being published some 27 months after the year end and almost 7 months after the statutory publication deadline. The first complete draft of the accounts was provided to me in April 2023, 14 months after the statutory deadline for doing so. The 2019-20 accounts were delayed due to a combination of the impact of COVID-19 and problems implementing the new IT system, OSCAR II. The delays experienced in 2019-20, combined with a significant delay in completion of returns by component entities, largely explain the delays in 2020-21.

12 HM Treasury was unable to meet its original timetable, but has made good progress against the revised timetable set in December 2022. HM Treasury set out a recovery timetable in March 2022 which aimed to publish the 2020-21 WGA accounts in March 2023. The performance of OSCAR II, HM Treasury's system that produces the WGA, has significantly improved and was a much smaller contributor to delays in 2020-21. However HM Treasury had to extend the deadline for data submission by components multiple times, principally due to poor delivery by those components. As a result HM Treasury revised its recovery timetable in December 2022, with an aim to publish the 2020-21 WGA within a new target "window" of Q3 2023 and with a new "publication base case" of late July. Since publishing this revised plan HM Treasury has kept to the timetable.

13 HM Treasury is making good progress to enable future WGAs to be published quicker. HM Treasury is taking positive steps to achieve this, including through:

- Stronger interaction with Central Government bodies which has improved the speed of their data submissions;
- Additional personnel, including project management expertise, that have been recruited into HM Treasury's WGA team;

- Development of a more detailed project plan, that HM Treasury has been delivering against; and
- Management's tone, which has a much stronger focus on delivery against timetable.

Overall these improvements give some confidence that HM Treasury will be able to publish the WGA within a shorter timeframe in the future.

14 However HM Treasury remains dependent on delivery by components to deliver the WGA. HM Treasury's engagement with Central Government bodies has improved the timeliness of their delivery in 2021-22. To successfully deliver future timetables HM Treasury needs to replicate this improvement in all components, including English Local Authorities and Scottish Bodies. At present HM Treasury has limited engagement with most components and does not know why they have not been providing data in a timely manner. As a result it cannot be confident that it will be able to produce a good quality WGA in line with its planned timetable improvements.

Recommendations

15 It is important that HM Treasury continues its efforts to secure progress in minimising the extent of audit qualifications. In this regard I recommend that HM Treasury:

a) Engages with components to better understand why they are not providing data for the WGA, and uses this information to identify how it can improve performance in future periods.

b) Designs and implements a process to assess the risk of material misstatement within draft accounts where they are used as the basis for submissions to HM Treasury.

c) Ensures that it agrees with the Department for Education mechanisms to allow the accurate consolidation of Further Education Institutions in the future. HM Treasury and the Department for Education should identify the extent to which similar arrangements can be implemented to resolve the assurance gap arising from the non-coterminous year end for the Academies Sector Annual Report and Accounts.

Gareth Davies 18 July 2023

Comptroller and Auditor General

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

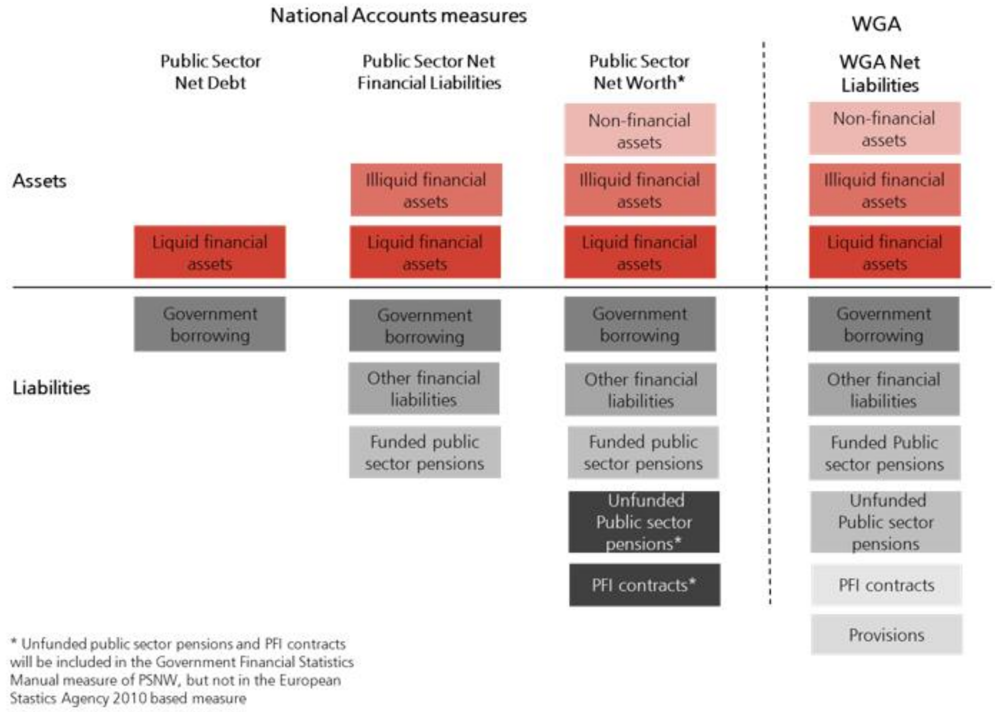
Annex A
Comparison to the National Accounts

WGA and the National Accounts

5.1 WGA is comprehensive, but not without limitations. The box on page 15 provides more information on what is not included in WGA. However, one of the key issues is that published financial statements, including WGA, are not published in a timely enough fashion to allow day-to-day control of the public finances. In order to understand and control the public finances, the government uses the National Accounts. These are statistical measures that do not include the full range of assets and liabilities that are included in WGA but are much timelier.

5.2 In looking at the fiscal picture, there are various statistical measures available in the National Accounts providing a complementary perspective of the health of the government's balance sheet. Public Sector Net Debt (PSND) comprises government borrowings less liquid financial assets (such as bank deposits and foreign exchange reserves). PSND excluding the public sector banks is the government's preferred measure of fiscal health as it is consistent with the internationally agreed National Accounts framework. Public Sector Net Financial Liabilities expands on PSND to include all financial assets, such as loans, derivatives, and equity investments. The most comprehensive measure derived from National Accounts is Public Sector Net Worth which compares the government's debt with all its assets, including physical assets used to deliver services such as infrastructure, offices, hospitals, and schools.

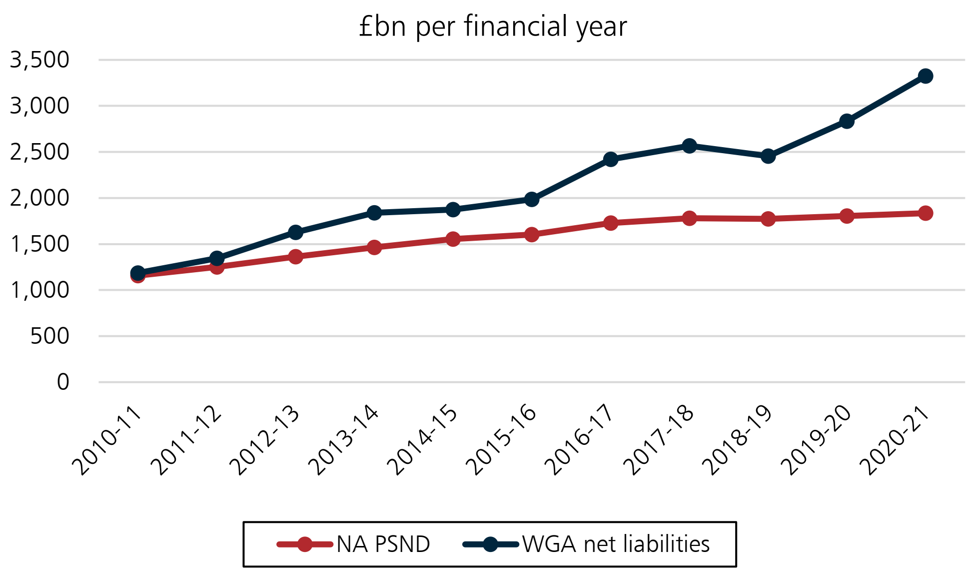
Chart 5.A: Comparison of National Accounts and WGA measures



Source: HM Treasury

Note - WGA Net Liabilities is more comprehensive than Public Sector Net Debt, including non-financial assets and public sector pensions liabilities, provisions and PFI contracts. Further explanations of the differences between the WGA and National Accounts will be given later in this annex.

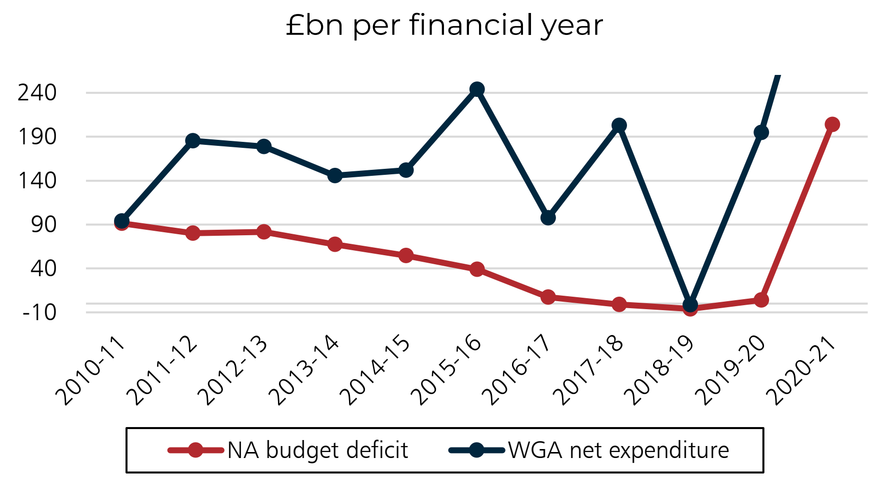
Chart 5.B: National Accounts (NA) PSND and WGA net liabilities



Source: HM Treasury and ONS data

5.3 Over the 12 years that the WGA has been published, the overall trend of the National Accounts PSND and the WGA net liabilities has generally been similar up until 2020-21. There was a divergence for 2016-17 and 2017-18. This is because pension liabilities increased in value that year, which affects WGA net liabilities but not National Accounts PSND. For 2018-19, the National Accounts recorded the lowest annual deficit since 2001 and a change in discount rate approach reversed the big increase in provisions recorded in the previous year, causing a big swing from a very large accounting loss to a small surplus in WGA net expenditure.

Chart 5.C: Chart 5.C: National Accounts (NA) Public Sector current budget deficit and WGA net expenditure



Source: HM Treasury and ONS data

5.4 The National Accounts and WGA shows different balance sheet pictures. In addition, there is greater difference on net expenditure. The National Account current budget deficit has been steadily reducing over the last 11 years. The WGA net expenditure series over the same period has shown greater volatility, mainly due to the expenditure for financing government's long-term liabilities which are included in the WGA but not in the National Accounts. The financing costs of long-term liabilities is affected significantly by changes to the discount rates used to discount future cash flows. This had a particular impact in 2015-16 and 2017-18, as there was a change in discount rates for certain provisions that impacted financing costs in WGA but did not affect the National Accounts deficit. Discount rates are looked at in more detail in Notes 2.6 to 2.7.

Why does the government use National Accounts?

5.5 WGA is prepared under International Financial Reporting Standards (IFRS). The standards are interpreted and adapted for the public sector context, but overall WGA is prepared on a similar basis to the private sector and is independently audited by the NAO. The benefits of WGA are that it provides a complete picture of the government's financial position, the future consequences of decisions already taken and financial commitments already entered into (for example pensions, PFI).

5.6 Public finances also apply internationally agreed standards, in this case the National Accounts rules (European System of National and Regional Accounts) which apply for measuring economic activity. Reporting is carried out by the independent Office for National Statistics. The benefit of the National Accounts is that they are available within a much shorter timescale than WGA.

5.7 There is more that is common than different between the two frameworks (for example the use of the accruals accounting concept, production of a balance sheet and production of an analysis of income and expenditure), allowing the two views to be combined. The UK goes further and reconciles WGA to the National Accounts to provide further transparency.

5.8 The government's preferred measure of Public Sector Net Debt excludes public sector banks. It equals external borrowings less liquid financial assets.

5.9 The rest of this chapter explains the differences between accounting standards and National Accounts rules and then provides a reconciliation from WGA to the National Accounts.

Comparison between accounting standards and National Accounts

5.10 The accounting standards followed by WGA are International Financial Reporting Standards (IFRS) and the statistical rules followed by the National Accounts are set out in the European System of Accounts (ESA). Both frameworks have core similarities:

- They are both prepared on an accruals basis (recognition of economic events regardless of when cash transactions occur)
- They each prepare a statement of financial position, income and expenditure analysis and details of other changes

- They both exclude future tax revenue, future assets, and liabilities that will be incurred in the future (such as future benefit and state pension payments).

Comparing WGA expenditure to the Public Sector current budget deficit

5.11 The public sector current budget deficit is an important balance in the fiscal framework. The current budget deficit is the difference in the financial year between accrued current revenue and expenditure as defined in the National Accounts.

5.12 One of the main differences between the current budget deficit used in National Accounts and total expenditure used in WGA is that the National Accounts exclude the financing costs of long-term liabilities. Instead, the National Accounts recognise these liabilities when they are due to be paid.

Comparison to Public Sector Net Debt

5.13 Public Sector Net Debt can be defined as the public sector's consolidated gross debt, less its assets that could be readily sold as defined in the National Accounts. The difference between the National Accounts and WGA measures of net debt and net liabilities is primarily due to differing treatments of the public sector pension liability, property, plant and equipment and provisions.

Differences between WGA and National Accounts

5.14 The differences between IFRS and ESA in how they recognise, and value certain assets, liabilities and items of expenditure are summarised below:

Differences between WGA (IFRS) and National Accounts (ESA)

Area	WGA treatment	National Accounts treatment
Grants to fund capital expenditure	Is recognised as an expense in-year as it does not result in an asset for government	Is always capitalised on the basis that it results in an asset in the wider economy
Research and development expenditure	Can be capitalised if it is likely to result in an asset but is frequently recognised as an expense in-year	Is capitalised more frequently on the basis that it is an investment lasting for more than one year
PFI	Most PFI assets and liabilities are recognised on balance sheet after assessing control of the assets. PFI payments are apportioned between repaying debt, paying interest and paying for services	Most PFI assets and liabilities are not recognised on the balance sheet after assessing risks and rewards. Payments under PFI contracts are recognised as a current expense in-year for off balance sheet schemes and a capital expense in-year for on balance sheet schemes.
Depreciation of assets	Is calculated for each asset individually based on its estimated useful economic life and residual value	Is calculated using standard statistical models, high level data and asset life assumptions.
Revaluation and impairment of assets	Assets are revalued as set out in Note 1 of the WGA. Assets are assessed annually for impairment compared to their carrying value	Assets are recognised at cost less depreciation and are not revalued. Only impairments caused by obsolescence or accidental damage are recognised
Profit or loss on sale of assets	Recognised as income or expenditure	Proceeds of sale are recognised but not the profit or loss

Gilts	WGA bodies hold gilts at fair value, these are eliminated on consolidation and all the remaining gilts are held at amortised cost	Gilts are included based on their redemption price
Public sector pensions	Recognises expenditure when rights accrue to employees, even though payment is not due. Pension Assets are recognised when employees and/or employers make contributions into the pension fund.	Recognises expenditure as it is paid to retirees. The future liability for current employees is not recognized. Pension entitlements in national accounts are measured on a gross basis; entitlements are not netted against expected revenue of government or expected household social contributions.
Provisions	Recognises expenditure when it becomes probable that a payment will be needed because of past events	Recognises provisions only when they are settled (i.e., there are actual payments). Amounts expected to be paid out in future because of past events are not recognised
Effects of discounting future liabilities	Future cash flows are discounted to estimate the value of the liability. Changes to the cash flows and discount rate are recognised in-year	Not included
Transactions within government	Transactions are eliminated entity-by-entity in a process that takes several months. The residual elimination error is quantified and subject to audit	Transactions are eliminated using a quicker and higher-level approach. The residual elimination error can't be quantified
Asset Purchase Facility	Shows gilt purchases at fair value	Records the gilt purchases at nominal value
UK Asset Resolution (UKAR)	Includes both the liabilities and the assets.	Includes UKAR's own debts to the private sector and excludes their non-liquid financial and other assets
Housing associations	Not included within the WGA boundary	Housing Associations used to be included in the National Accounts but are now not.

Reconciliation to Public Sector Net Debt

5.15 Public Sector Net Debt is a measure that is calculated from the National Accounts. The same figures can be compiled from WGA, but the total net liabilities recognised within WGA are more extensive than those recognised in Public Sector Net Debt. This is partly because Public Sector Net Debt is only part of the National Accounts balance sheet and partly because WGA recognises additional assets and liabilities which are not included on the National Accounts balance sheet.

Public Sector Net Debt compared to total WGA net liabilities

5.16 The reconciling amounts included on the adjustment line in the table below are calculated as the difference between the value of a balance in WGA and the value of the same balance in the National Accounts These amounts are therefore not directly comparable to the amounts included in the Financial Statements in Chapter 4.

Public Sector Net Debt compared to total WGA net liabilities

	2020-21 £bn	2019-20 £bn	2018-19 £bn
Public Sector Net Debt (National Accounts)	**1,835**	**1,806**	**1,774**
Add liabilities not recognised in National Accounts:			
Net public sector pensions liability	2,306	2,190	1,894
Provisions	366	375	311
PFI contracts	27	31	32
Adjust assets measured differently in national accounts:			
Asset Purchase Facility	(1,557)	(181)	(194)
Unamortised premia on gilts	62	62	56
UK Asset Resolution (UKAR) net impact on net debt	5	(1)	(2)
Add assets and liabilities excluded from measure of PSND:			
Property, plant and equipment	(1,270)	(1,313)	(1,268)
Investment property	(17)	(24)	(23)
Intangible assets	(41)	(40)	(37)
Trade and other receivables	(43)	(45)	(41)
Prepayments and accrued income	(79)	(88)	(108)
Inventories	(15)	(11)	(10)
Investments	(41)	(33)	(53)
Trade and other payables	44	56	51
Accruals and deferred income	81	66	61
Deduct liabilities not yet recognised in WGA			
Housing associations	-	-	-
Other adjustments including eliminations	1,663	(16)	13
Net liabilities (WGA)	**3,326**	**2,834**	**2,456**

Reconciliation to Public Sector Current Budget Deficit

5.17 Public Sector Current Budget Deficit is also calculated from the National Accounts and the government's preferred measure excludes public sector banks. Total net expenditure in WGA is higher than the Public Sector Current Budget Deficit primarily because it includes expenditure on long-term liabilities.

Public sector current budget deficit

	2020-21 £bn	2019-20 £bn	2018-19 £bn
Public sector current budget deficit/(surplus) (National Accounts)	204	4	(6)
Add expenditure on liabilities excluded from National Accounts:			
Increase in provisions	32	74	21
Adjust expenditure calculated differently from National Accounts:			
Public sector pensions	-	-	-
Depreciation and amortisation	(16)	(19)	(15)
Impairments and revaluations of assets	27	16	13
Net (gains)/Losses on sale of assets	1	2	4
Capital grants	42	9	10
Research and development	2	2	2
Other adjustments including eliminations	39	17	27
Net expenditure on public services (WGA)	**331**	**105**	**56**
Financing costs of long-term liabilities, including discounting	56	67	(57)
Revaluation of financial assets and liabilities	17	20	(1)
Total net expenditure / (income) (WGA)	**404**	**192**	**(2)**

5.18 The reconciling amounts included in the table above are calculated as the difference between the value of a transaction in WGA and the value of the same transaction in the National Accounts. These amounts are therefore not directly comparable to the amounts included in the Financial Statements in Chapter 4.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk