National Loans Fund Account 2022-23

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Performance Report

Overview

Purpose and activities of the National Loans Fund

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

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

The DMO's remit is 'to carry out the Government's debt management policy of minimising financing costs over the long term, taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating in a risk appetite approved by Ministers in both cases'. Its operations are managed through the Debt Management Account (DMA) which is a bank account at the Bank of England linked closely with the NLF. As the Government's debt manager, the DMO has a key role in the issue of gilt-edged securities on behalf of the Treasury. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds. There are two main types: conventional (i.e. fixed rate) gilts and index-linked gilts on which the return is currently linked to movements in the Retail Prices Index (RPI). They are issued from the NLF and sold into the market by the DMO. In addition, the DMO issues Treasury Bills from the DMA and undertakes other money market operations to meet the Government's daily cash requirements. Further details on these operations can be found in the Debt Management Report 2023-24[1] published by the Treasury in March 2023.

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

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

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

The NLF provides finance for both the DMA and EEA, so surpluses and deficits of the DMA and EEA are income and expenditure of the NLF and their net assets are assets of the NLF. It also makes loans to various statutory public sector bodies and provides the finance needed by the Public Works Loan Board

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[1] https://www.gov.uk/government/publications/debt-management-report-2023-24

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

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

Key issues and risks

The key issues and risks facing the NLF are considered in the governance statement on pages 12 to 17. In addition, the financial risks related to the NLF are separately disclosed in note 16 on page 41 to 48.

Performance summary

The total comprehensive net expenditure of the NLF increased by £36.4 billion from £59.6 billion in 2021-22 to £96.0 billion in 2022-23 primarily due to an increase in Finance costs of borrowing of £38.3 billion from £69.0 billion in 2021-22 to £107.3 billion in 2022-23, partly offset by an increase in Other income of £1.7 billion from £6.1 billion in 2021-22 to £7.8 billion in 2022-23.

The NLF's total gross assets decreased by £3.2 billion from £297.4 billion in 2021-22 to £294.2 billion in 2022-23. Total gross liabilities increased by £156.9 billion from £2,557.9 billion in 2021-22 to £2,714.8 billion in 2022-23. As a result, net liabilities increased by £160.1 billion from £2,260.5 billion in 2021-22 to £2,420.6 billion in 2022-23. Further details can be found in the Performance analysis.

Performance analysis

International Support

The UK has continued to support the International Monetary Fund (IMF) through the NLF in 2022-23 in line with our commitments as an IMF member. The UK has provided such support through its quota subscription and other lending to the Fund. The UK's quota commitment to the IMF is currently fixed at SDR[2] 20,155m (£21,908m at the 31 March 2023 exchange rate[3]). The UK also supports the Fund's New Arrangements to Borrow (NAB) and Bilateral Borrowing Agreements (BBAs), which are resources that the IMF can call upon to supplement permanent IMF quota resources, and which serve as the second and third lines of defence respectively should quotas be exhausted. The UK's NAB and BBA commitment is respectively SDR 18,958m (£20,608m) and SDR 3,954 million (£4,298m). Overall, the UK's commitment to the IMF's general resources (quota, NAB and BBAs) stands at SDR 43,067m (£46,814m), which has been static since 1 January 2021. Discussions on the future of the IMF's general resources are ongoing through the 16th General Review of Quotas (GRQ) and are due to conclude by December 2023.

The NLF's net exposure to the IMF of £5.9 billion at 31 March 2023 (2021-22: £5.6 billion) is described in note 9 and comprises the reserve tranche position of £5.9 billion (2021-22: £5.4 billion) and loans of £0.1 billion (2021-22: £0.2 billion). The IMF maintains precautionary balances of retained earnings to absorb any losses it may incur. As at 31 March 2023, any losses that may be incurred by the IMF on loans to its member countries are not expected to result in losses to the NLF.

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

3 The GBP/SDR exchange rate at 31 March 2023 was 0.919954 (31 March 2022: 0.949472)

Asset Purchase Facility

The Asset Purchase Facility (APF) was set up in 2008-09 at the Bank of England and is authorised to purchase assets financed by the issuance of central bank reserves (a process known as 'quantitative easing'). As at 31 March 2023, on an amortised cost basis, £729.4 billion (2021-22: £765.3 billion) of gilts from the NLF were held by the Bank of England for quantitative easing. Under an indemnity agreement between HM Treasury and the Bank of England, any excess funds held in the facility, are transferred to HM Treasury from where they are paid to the CF as Extra Receipts. Since 2012 the APF has transferred circa £120 billion to HM Treasury from interest payments on purchased gilts net of interest and other costs. This cash flow has now reversed, as was expected as the scheme was unwound, and gilts sold back into the market, with the first quarterly payment made from HM Treasury to the APF in October 2022. More information on the scheme can be found on the Bank of England's website[4] and in HM Treasury's Annual Report and Accounts[5].

Outturn for 2022-23

The total comprehensive net expenditure of the NLF increased by £36.4 billion to £96.0 billion in 2022-23. This is primarily due to an increase in Finance costs of borrowing of £38.3 billion, partly offset by an increase in Other income of £1.7 billion.

The increase in Financing costs of borrowing is mainly as a result of £34.1 billion higher financing costs of gilts reflecting the impact of increases in RPI on the indexed-linked portfolio, while the increase in Other income is primarily due to a £1.6 billion increase in the profits of the Bank of England Issue Department which are payable to the NLF.

The total comprehensive net income from the DMA was £3.3 billion in 2022-23 and is reported against Other income in the Statement of Comprehensive Net Expenditure; this compares to net income of £3.9 billion in 2021-22. The total comprehensive net income from the EEA was £2.8 billion in 2022-23 and is reported against Other income; this compares to a net income of £2.1 billion in 2021-22. Further information on the DMA and EEA can be found in their respective accounts which are published separately.

Assets

The NLF's total gross assets decreased by £3.2 billion from £297.4 billion in 2021-22 to £294.2 billion in 2022-23. This was primarily due to a decrease in advances of £10.7 billion (driven by a £15.0 billion decrease in the advance to the DMA), partly offset by an increase in other assets of £6.6 billion.

Liabilities

Total gross liabilities increased by £156.9 billion from £2,557.9 billion in 2021-22 to £2,714.8 billion in 2022-23. This is largely a result of gilt-edged stock increasing by £169.1 billion, NS&I liabilities increasing by £10.7 billion (reflecting significant inflows from Guaranteed bonds, Premium bonds, Income bonds and Savings certificates, partly offset by net outflows on guaranteed bonds), partly offset by liabilities to other public sector entities decreasing by £23.1 billion.

Public Sector Net Debt

As a result of these changes, the net liabilities of the Fund increased by £160.1 billion from £2,260.5 billion in 2021-22 to £2,420.6 billion in 2022-23. This is matched by a corresponding claim on the CF. The NLF lends to and borrows from other parts of the public sector. For example, it makes advances to the PWLB and borrows directly from a range of public sector bodies (as described in note 12). In addition, some of the gilts it has issued are held in the public sector, including by the DMA which retains a portfolio of gilts for use as collateral for its money market activities and by the Bank of England under the Asset Purchase Facility. The DMA also has large advances to and from the NLF. Therefore, the NLF's net liabilities do not equate to the Public Sector Net Debt ("PSND"), which is a calculation of the net debt of the whole of the public sector after eliminating intra-public sector balances. Figures for PSND are published jointly by HM Treasury and the Office for National Statistics in the monthly Public Sector

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

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

Finances Statistical Bulletin which can be found on the Office for National Statistics and GOV.UK websites.

Forward Look

Net financing requirement

The Debt Management Report which included the financing remit for 2023-24 was published by the Treasury alongside the *Spring Budget 2023* in March 2023 and subsequently revised following publication of the 2022-23 Central Government Net Cash Requirement (CGNCR) Outturn: Revision to the DMO's Financing Remit 2023-24[6]. On the basis of a CGNCR forecast for 2023-24 of £159.5 billion (excluding the self-financed elements of Network Rail), the revised Net Financing Requirement to be met by the DMO is £242.8 billion. The DMO will meet this requirement by gross gilt sales of £237.8 billion (gilts issued by the NLF) and a net contribution of £5.0 billion from net sale of Treasury Bills (through DMO).

Long-term expenditure trends

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

James Bowler
Accounting Officer
HM Treasury

17 October 2023

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6 https://www.dmo.gov.uk/media/kiid5x4g/pr250423-remit-revision_2.pdf

Accountability Report

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

Corporate governance report

Directors' report

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

Directors' conflicts of interest

In 2022-23, no material conflicts of interest have been noted by the senior management overseeing the NLF.

Personal data related incidents

The NLF does not hold any protected personal data.

Statement of Accounting Officer's responsibilities

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

In preparing the Account the Accounting Officer should:

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

The Treasury has appointed its Permanent Secretary James Bowler, as Accounting Officer of the National Loans Fund.

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

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

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

Audit arrangements

The NLF accounts are audited by the Comptroller and Auditor General (C&AG) under the requirements of the National Loans Act 1968. The National Audit Office (NAO) bears the cost of all external audit work performed on the NLF. No non-audit work was undertaken by the NAO in relation to the NLF in 2022-23.

Governance Statement

Governance Framework

The National Loans Fund (NLF) is managed within the Treasury's overall risk and governance framework as set out in the Treasury's Annual Report and Accounts 2022-23[7]. This includes the Treasury Board's assessment of its compliance with the Corporate Governance Code for Central Government Departments.

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

Tom Scholar was Treasury Permanent Secretary and Accounting Officer for the NLF from the start of the 2022-23 financial year until 8 September 2022. In the intervening period between Tom Scholar's departure and my appointment on 17 October 2022, Catherine Little and Beth Russell assumed responsibility as Acting Permanent Secretaries, with Catherine Little acting Accounting Officer for the NLF. I have received assurance of Accounting Officer cover throughout the period 1 April to 17 October prior to me becoming the Accounting Officer. This has ensured appropriate assurances are in place to enable me to sign off this statement. As Accounting Officer for the NLF, I am personally responsible and accountable to Parliament for the organisation and quality of management of the NLF, including its use of public money and the stewardship of its assets, in line with those responsibilities assigned to me in Managing Public Money.

Audit and Risk Committee

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

ARC provides oversight of activity performed by the Government Internal Audit Agency (GIAA) and approves the Internal Audit Plan for the year which is developed to assure key risks and controls. The Group Chief Internal Auditor attends every ARC meeting, updating on the plan and reporting on key controls.

The ARC also oversees the work of the Fund's external auditors, the National Audit Office (NAO).

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

The membership of the ARC at the 31 March 2023 was:

- Zarin Patel - Zarin is a Qualified Chartered Accountant. Zarin brings broad experience, both executive and Non-Executive, from the public and private sectors. She is an experienced ARC Chair, Board Director and a previous Chief Financial Officer, with expertise in managing transformation within complex digital-centric businesses and broad experience across finance, investment, procurement, large capex, audit and corporate finance, as well as general management. Zarin's other roles include: Non-Executive Director (NED); Chair of ARC; Member of Environment, Social and Governance, Remuneration and Nominations Committees at Pets at Home Group PLC (2021 to date); NED at Hays plc (from January 2023); NED, Chair of ARC, Member of Nominations and Remuneration Committee of Anglian Water Services Limited (2018 to date); Trustee and Chair of ARC at National Trust (2018 to date).

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

- Edward Braham - Edward is one of the most senior lawyers in the City, with a wealth of experience across finance and business. He was the Senior Partner of the international law firm, Freshfields, successfully leading the firm for 5 years through Brexit uncertainty, increased nationalism around the world, and the pandemic, and remains as a partner. His focus was particularly in strategic growth in the US and addressing all aspects of sustainability, including culture and diversity and building on the firm's existing environmental, social and governance (ESG) commitments. Edward's other roles include: Director of TheCityUK, Chair of its International Trade and Investment Group and member of its Nominations and Remuneration Committee (2018 to date); Mayoral and Shrieval Independent Panel and Innovation and Growth Advisory Board at City of London Corporation (2021 to date); Member of the Campaign Board at the Museum of London (2021 to date); Member of the Advisory Council at Capital as a Force for Good (2021 to date); Member of the Court of the Goldsmiths Company, Trustee of the Goldsmiths' Charity and Chair of the Goldsmiths' Centre, the leading educational and workshop charity for the UK trade (2011 to date).
- Jane Hanson - Jane brings wide financial, public and private sector experience. Jane is a fellow of the Institute for Chartered Accountants with over 30 years' experience in commercial, not for profit, other private and public sector organisations. She was previously Risk and Governance Director at Aviva plc (2002 to 2006) and Non-Executive Director and Chair of the Board Risk Committee at Direct Line Insurance Group plc (2011 to 2021), Old Mutual Wealth plc (2013 to 2016) and William Hill plc (2019 to 2021). Jane is also a magistrate. Jane's other roles include: Chair of UK Gov Dormant Asset Expansion Board (2011 to date). Chair of Audit Committee and Non-Executive Director of Welsh Water plc (2021 to date). Chair of Audit Committee at the Civil Aviation Authority (2021 to date). Chair Bardi Symphony Orchestra (2020 to date).

The ARC met six times during 2022-23. Pre-meeting discussions with the National Audit Office and Internal Auditors were held where needed. Attendance is outlined in the table below:

Name	Attendance
Zarin Patel	6/6
Sir Peter Estlin[8]	4/4
Edward Braham	6/6
Jane Hanson	3/3
Ian Kenyon[9]	4/5

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

Internal Audit

During 2022-23, Internal Audit for the NLF was provided by Government Internal Audit Agency (GIAA) as part of their wider work on the departmental group.

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[8] Sir Peter Estlin's appointment finished on 31 October 2022. His interests include: Alderman, City of London. Independent Director, Rothschild & Co; Chair, Association of Apprentices, (previously Group Financial Controller and acting Group CFO, Barclays).

[9] Ian Kenyon joined ARC as an independent member on 25 April 2022 having been appointed by the PAO and Chair of ARC. Ian stepped down on 17 January 2023. Ian's interests included: Director of Nuclear Finance and Programmes at the MoD's Defence Nuclear Organisation and previously held senior finance roles at Kingfisher, Sainsbury's and Chief Finance Officer roles at Carpetright plc, Carphone Warehouse and HMV Group plc and Cancer Research UK). He is Treasurer of the University of Nottingham and a member of their Council. His interests include Trustee of the Kenyon Charity Trust.

For the NLF, an annual risk-based internal audit programme is agreed and developed through consultation with the Treasury's senior management team and discussed by directors and Executive Management Board. The Audit and Risk Committee (ARC) approved the audit plan for 2022-23 in March 2022. The work programme always includes a review of the receipts and payments process, due to the very high value of payments made by the NLF. The ARC reviews the work programme and is kept informed of progress and amendments.

Chris Westwood, Director of Internal Audit provided his Annual Report and Opinion on the adequacy and effectiveness of the framework of governance, risk management and control operating over the NLF to the Accounting Officer and ARC. A substantial opinion was provided for the period 2022-23. This assessment is based on the work that GIAA have conducted during the year in relation to the NLF. It provides assurance on the adequacy and effectiveness of the risk management, control and governance framework relevant to the Annual Report and Accounts. There were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Governance Statement.

Box 1.A Head of Internal Audit Report

On the basis of the work undertaken and discussions with EFA management, in my opinion the framework of governance, risk management and control for the NLF was adequate and effective during 2022-23. There were no matters arising from the work we carried out in 2022-23 that would give rise to a separate comment in the governance statement nor areas of concern that I needed to bring to the specific attention of the Accounting Officer. This is the same level of assurance on the adequacy and effectiveness of governance, risk management and internal control that was issued to the Accounting Officer in 2021-22.

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

The planned internal audit programme was reviewed and endorsed HM Treasury's ARC and Accounting Officer. GIAA has delivered a programme of internal audit engagements throughout 2022-23 including a review of all types of payments and receipts across the NLF with a detailed review of repayments of Temporary Deposit repayments, as well as general arrangements within EFA including its controls over static data changes and access to the ACME system and its implementation of a Treasury Management System upgrade.

Throughout the year, GIAA has continued to liaise with the EFA team and attend the HM Treasury Audit and Risk Committee meetings.

Chris Westwood, Director of Internal Audit, Centre of Government Group, GIAA

Management of the National Loans Fund

The NLF is managed by the Treasury Accountant and their managers within the Exchequer Funds and Accounts (EFA) team of HM Treasury, overseen by the Group Finance Director. Any matters concerning the NLF are reported directly to me.

Risk Management

Treasury Risk management and reporting to the Treasury's Boards

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

The Treasury's risk management framework enables the identification and management of risks to the department's strategic objectives. The Framework is underpinned by Directors', Risk Groups' and the Operations Committee's responsibility for monitoring, challenging and reporting on performance against and risks to the Treasury's objectives.

Following a full review in summer 2021 the department embedded a new approach to risk appetite, with Executive Management Board (EMB) setting the appetite for different categories of risk, improving consistency of reporting and driving decision making based on mitigations and responses.

All key updates on performance and risk for Executive Management Board (EMB) and Treasury Board (Sub-Committee) (TB(SC)) are shared via the Quarterly Performance and Risk Report, escalating critical issues and risks that exceed the department's risk appetite to enable senior managers to respond appropriately. As a risk owner, the Treasury Accountant feeds into the quarterly operational risk register.

Throughout 2022-23, EMB has taken an active approach to mitigating and managing specific risks and issues through its regular meetings and ad-hoc risk deep-dive meetings.

National Loans Fund Risk management

EFA is managed within the Treasury's risk management framework, as set out in the Treasury's Annual Report and Accounts (summary provided above). The Treasury Accountant has overall responsibility on a day-to-day basis for risk management of those Funds managed by EFA, and for ensuring that my financial, regularity and propriety responsibilities as Accounting Officer of the CF are discharged appropriately. They are supported by members of EFA management who are responsible for ensuring that the tasks in their respective areas are compliant with operational policies and procedures, and with legislation.

In addition, a Central Funds Risks and Controls Review Panel comprising directors from both Treasury and the Debt Management Office provides me with additional assurance on CF operations and risk management. The panel, chaired by the Finance Director, reviews the quarterly controls report and accompanying risk register produced by EFA management in advance of submission to me, providing challenge and input across the range of controls.

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

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

EFA management ensures that key operational staff with responsibilities relating to the NLF are trained and equipped to manage risk in a way appropriate to their authority and duties.

The system of internal control

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

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

The system of internal control has been in place throughout the year ended 31 March 2023 and up to the date of approval of the financial statements, and accords with Treasury guidance. During the year, there were no significant changes to the control environment.

Risk profile

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

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

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

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

- *Failure of IT systems*: Our network infrastructure, which is provided by an outsourced supplier, has a high level of resilience. It is configured across two data centres which provides an availability of 99.99% due to the configuration allowing a near instant failover should an issue arise.

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

- *Failure of principal counterparties to provide agreed services*: Well-developed Service Level Agreements (SLAs) for the provision of services from all principal counterparties are in place. They cover details of the monitoring and control arrangements that both parties are expected to observe.

- *Information risk*: Data and information risk are managed in accordance with the Treasury's policies, which involve a range of controls to prevent unauthorised disclosures. These include encryption and physical and IT security. HM Treasury adheres to Cabinet Office guidelines[10]. EFA's own Data Handling Policy identifies risks specific to EFA.
- *Financial risk*: Adverse results of the Debt Management Account and the Exchange Equalisation Account will affect the NLF's results; therefore, all financial risks inherent in these accounts are also inherent in the NLF. Responsibility for risk management and the system of internal control is clearly delegated to the Accounting Officers of those accounts, which have their own control frameworks in place.

Review of effectiveness

In line with HM Government guidance, set out within the Corporate Governance Code of Good Practice for central government departments, I have reviewed the effectiveness of the system of internal control. My review is informed by the work of GIAA who provided positive assurance as to the management and control of the NLF in 2022-23, and the EFA management who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Treasury Group ARC, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. Information about the effectiveness of the Treasury's overall system of governance including board effectiveness, attendance, compliance with the Corporate Governance Code and quality of management information reviewed, is reported in the Treasury's Annual Report and Accounts.

The ARC considered the 2022-23 accounts in draft and provided me with its views before I formally signed the accounts.

No significant internal control issues, including data related incidents, have been identified in 2022-23, and no significant new risks specific to the operational management and performance of the NLF have been identified in the year. No ministerial directions relating to the NLF's operations have been given in 2022-23.

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

10 Available at https://www.gov.uk/government/publications/security-policy-framework

Parliamentary accountability and audit report

Regularity of expenditure (audited)

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

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

Losses and special payments (audited)

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

Fees and charges (audited)

The NLF does not have any fees or charges.

Remote contingent liabilities (audited)

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

Under the National Loans Act 1968 section 9(3), the NLF has a contingent liability to the Bank of England Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This liability would only crystallise if government securities were insufficient to meet demand from holders of notes to exchange them for another instrument. The contingent liability was £84,733 million at 31 March 2023 (£85,299 million at 31 March 2022). No obligations crystallised or expired in 2022-23 (2021-22: none).

The NLF has a contingent liability to the Commissioners for the Reduction of the National Debt (CRND) in respect of unclaimed dividends received in previous years. This represents old uncleared amounts surrendered by the gilts registrar to CRND and then onto the NLF and stood at £31.0 million at 31 March 2023 (£31.9 million at 31 March 2022). This contingent liability would crystallise if holders of gilts requested amounts owed to them in excess of an amount for settlement retained by CRND. No obligations crystallised or expired in 2022-23 (2021-22: none).

James Bowler
Accounting Officer
HM Treasury

17 October 2023

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

Opinion on financial statements

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2023 under the National Loans Act 1968.

The financial statements comprise the National Loans Fund's:

- Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in the Liability of the Consolidated Fund to the National Loans Fund for the year then ended; and
- the related notes including the significant accounting policies.

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

In my opinion, the financial statements:

- give a true and fair view of the state of the National Loans Fund's affairs as at 31 March 2023 and its total comprehensive net expenditure for the year then ended; and
- have been properly prepared in accordance with the National Loans Act 1968.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. 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 National Loans Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

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

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

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

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

Other Information

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

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

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

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

Matters on which I report by exception

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

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept by the National Loans Fund or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;

- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within HM Treasury from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with the National Loans Act 1968;
- ensuring that the annual report is prepared in accordance with the applicable financial reporting framework; and
- assessing the National Loans Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the National Loans Fund will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968.

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

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

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

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

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

- considered the nature of the sector, control environment and operational performance including the design of the National Loans Fund's accounting policies;
- Inquired of management, the National Loans Fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the National Loans Fund's policies and procedures on:
    - identifying, evaluating and complying with laws and regulations
    - detecting and responding to the risks of fraud; and

    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the National Loans Fund's controls relating to the National Loans Fund's compliance with the National Loans Act 1968, statutory limits and legislation in respect of the National Loans Fund's loans and Managing Public Money;

- Inquired of management, the National Loans Fund's head of internal audit and those charged with governance whether
    - they were aware of any instances of non-compliance with laws and regulations;
    - they have knowledge of any actual, suspected or alleged fraud; and
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

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

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

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

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by

Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

20 October 2023

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

Financial Statements

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2023

	Note	**2022-23 £m**	2021-22 £m
Finance costs of borrowing	2	**107,289**	69,010
Income from lending operations	3	**(3,480)**	(3,240)
Gains on foreign exchange transactions	4	**(173)**	(125)
Other expenditure	5	**165**	108
Other income	5	**(7,815)**	(6,148)
Total comprehensive net expenditure		**95,986**	59,605

The notes on pages 28 to 48 form part of this Account.

Statement of Financial Position

As at 31 March 2023

	Note	At 31 March 2023 £m	At 31 March 2022 £m
Assets			
Advances	6	**161,534**	172,250
Loans	7	**4,357**	3,980
Other assets	8	**106,281**	99,717
IMF Quota Subscription & Lending	9	**21,974**	21,425
Total assets		**294,146**	297,372
Liabilities			
Gilt-edged stock	10	**2,400,643**	2,231,483
National Savings and Investments products	11	**218,254**	207,627
Other debt	12	**79,839**	102,930
Liabilities to the IMF	9	**16,039**	15,869
Total liabilities		**2,714,775**	2,557,909
Net liabilities		**2,420,629**	2,260,537
Liability of the Consolidated Fund to the National Loans Fund		**2,420,629**	2,260,537

The notes on pages 28 to 48 form part of this Account.

James Bowler

Accounting Officer
HM Treasury

17 October 2023

Statement of Cash Flows

For the year ended 31 March 2023

	2022-23 £m	2021-22 £m
Cash flows from operating activities		
Interest received	**3,441**	3,413
Other receipts	**1,538**	18
Interest paid	**(42,392)**	(41,419)
Other (outflows) / inflows	**(560)**	932
Transfer from the Consolidated Fund for the cost of debt servicing	**37,973**	37,056
Net cash flow from operating activities	**-**	-
Cash flows from investing activities		
Net decrease in advance to the Debt Management Account	**15,000**	30,000
Net increase in advance to the Public Works Loan Board	**(5,043)**	(4,742)
Net increase in loans	**(241)**	(176)
Net decrease in advance to the Exchange Equalisation Account	**800**	300
Net cash inflow from investing activities	**10,516**	25,382
Cash flows from financing activities		
Net issuance of government stock	**107,634**	102,286
Net redemption of Treasury Bills for Funding for Lending	**-**	(252)
Net receipt of cash from National Savings	**7,047**	3,442
Net (decrease) / increase in other sterling borrowing	**(23,332)**	4,704
Net transfers of IMF non-interest bearing securities	**214**	(1,402)
Net Foreign currency borrowing	**-**	-
Net transfers to the Consolidated Fund	**(102,079)**	(134,160)
Net cash outflow from financing activities	**(10,516)**	(25,382)
Net change in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning and end of year	**-**	-

The notes on pages 28 to 48 form part of this Account.

Statement of Changes in the Liability of the Consolidated Fund to the National Loans Fund

For the year ended 31 March 2023

	2022-23 **£m**	2021-22 £m
Liability of the Consolidated Fund to the National Loans Fund at 1 April	**2,260,537**	2,103,828
Net cash paid to the Consolidated Fund	**102,079**	134,160
Payment from the Consolidated Fund for the cost of debt servicing during the year	**(37,973)**	(37,056)
Total comprehensive net expenditure	**95,986**	59,605
Liability of the Consolidated Fund to the National Loans Fund at 31 March	**2,420,629**	2,260,537

The notes on pages 28 to 48 form part of this Account.

Notes to the Account

1. Accounting Policies

i. Accounting convention

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

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

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

iii. Basis of presentation

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

iv. Recognition of finance income and costs

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

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

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

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

vi. Financial assets and liabilities

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

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

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

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

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

vii. Impairment of financial assets

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

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

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

viii. Foreign currencies

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

ix. Administration expenditure

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

x. *Exchange Equalisation Account and Debt Management Account*

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

xi. Critical accounting judgements and key sources of estimation uncertainty

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

2. Finance costs of borrowing

	2022-23 £m	2021-22 £m
Gilt-edged stock	**100,445**	66,395
National Savings and Investments products	**5,482**	2,532
Other finance costs	**1,362**	83
Total finance costs of borrowing	**107,289**	69,010

3. Income from lending operations

	2022-23 £m	2021-22 £m
Interest on loans advanced by the National Loans Fund to:		
Public corporations	**30**	34
Central government bodies	**70**	67
	100	101
Interest on loans by the Public Works Loan Board financed by National Loans Fund advances	**3,171**	3,075
Interest on funding advanced to the Debt Management Account	**209**	64
Total income from lending operations	**3,480**	3,240

4. Gains and losses on foreign exchange transactions

	Note	2022-23 £m	2021-22 £m
Gain on Reserve Tranche Position at the IMF	9	**(167)**	(119)
Gain on lending to the IMF	9	**(6)**	(6)
Net gain on foreign currency transactions		**(173)**	(125)

5. Other income and expenditure

	2022-23 £m	2021-22 £m
Other expenditure		
Expenditure in respect of depreciation of Issue Department Assets [2]	**162**	104
Miscellaneous expenditure	**3**	4
Total: Other expenditure	**165**	108
Other income		
EEA total comprehensive net income [1]	**(2,842)**	(2,111)
DMA total comprehensive net income	**(3,270)**	(3,915)
Profits of the Bank of England Issue Department [2]	**(1,700)**	(122)
Written off gilt-edged stock	**(1)**	-
Miscellaneous receipts	**(2)**	-
Total: Other income	**(7,815)**	(6,148)
Net total	**(7,650)**	(6,040)

[1] The EEA made a gain of £2,842 million (2021-22: £2,111 million loss). Of the £2,842 million net income from the EEA, £103 million (2021-22: £5 million) relates to interest income from the IMF Reserve Tranche Position and bilateral loans to the IMF in line with accounting policy v.

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

6. Advances

	Public Works Loan Board		Debt Management Account		Exchange Equalisation Account		Total	
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
	2022-23	2021-22	**2022-23**	2021-22	**2022-23**	2021-22	**2022-23**	2021-22
Principal outstanding at 1 April	**90,690**	85,948	**15,000**	45,000	**65,947**	66,247	**171,637**	197,195
Advances	**7,886**	8,398	**50,000**	80,000	**4,000**	4,900	**61,886**	93,298
Advances repaid	**(2,843)**	(3,656)	**(65,000)**	(110,000)	**(4,800)**	(5,200)	**(72,643)**	(118,856)
Principal outstanding at 31 March	**95,733**	90,690	**-**	15,000	**65,147**	65,947	**160,880**	171,637
Accrued interest	**642**	597	**12**	16	**-**	-	**654**	613
Total advances outstanding	**96,375**	91,287	**12**	15,016	**65,147**	65,947	**161,534**	172,250

7. Loans and commitments to lend

Loans		**2022-23**			2021-22	
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Principal outstanding at 1 April	**501**	**3,461**	**3,962**	555	3,144	3,699
Loans advanced	**296**	**697**	**993**	174	549	723
Loans repaid	**(335)**	**(279)**	**(614)**	(228)	(232)	(460)
Principal outstanding at 31 March	**462**	**3,879**	**4,341**	501	3,461	3,962
Accrued interest	**5**	**11**	**16**	7	11	18
Total loans outstanding	**467**	**3,890**	**4,357**	508	3,472	3,980

Commitments to lend		**At 31 March 2023**		At 31 March 2022		
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Undrawn commitments to lend	**24**	**250**	**274**	17	250	267

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

Note 8. Other assets

	At 31 March 2023 £m	At 31 March 2022 £m
Exchange Equalisation Account net assets	**40,374**	37,532
Debt Management Account net assets	**63,009**	59,739
Cash held by National Savings and Investments	**2,842**	2,392
Sterling balances at Bank of England advanced to IMF	**56**	54
Total other assets	**106,281**	99,717

Note 9. IMF Reserve Tranche Position and Lending to the IMF

The United Kingdom's financial relationship with the International Monetary Fund (IMF) is accounted for in the NLF and the EEA. The UK's quota subscription to the IMF, 20,155 million Special Drawing Rights (SDRs) - equivalent to £21,908 million[11] at 31 March 2023 (£21,227 million at 31 March 2022) - was paid from the NLF and is recognised as an NLF asset. Part of the subscription is deposited by the IMF in the NLF in return for sterling non-interest-bearing securities (NIBS) which totalled £15,713 million at 31 March 2023 (£15,499 million at 31 March 2022). NIBS represent a liability of the NLF to the IMF. There is a remaining small liability of £56 million (£54 million at 31 March 2022) against which an equal amount of sterling cash is made available in an account at the Bank of England for drawdown by the IMF.

The difference between the gross quota subscription and the NLF's sterling liability to the IMF is the UK's reserve tranche position (RTP). Under the arrangements for membership of the Fund, valuation adjustments are made between the IMF and NLF annually to reflect any changes in value in SDR terms of the NLF's sterling liability to the IMF. An annual settlement payment is made between the NLF and the IMF, normally in May. The cumulative valuation adjustment at 31 March 2023 was £270 million loss (£316 million loss at 31 March 2022). The table below sets out the composition of the RTP and the make-up of changes over the year.

[11] The GBP/SDR exchange rate at 31 March 2023 was 0.919954 (31 March 2022: 0.949472)

NLF Assets and Liabilities: Composition of the Reserve Tranche Position and Lending[12] to the IMF

	Asset	Liabilities				Reserve Tranche Position
	IMF Quota Subscription	Non-interest-bearing securities	Other quota liability	Valuation adjustment	Total liabilities	
	£m	£m	£m	£m	£m	£m
Balances at 31 March 2022	21,227	(15,499)	(54)	(316)	(15,869)	5,358
Exchange rate gains for the year on the Quota subscription	681				-	681
Change in year-end valuation adjustment				46	46	46
Change in loan notes as a result of the valuation settlement		(560)			(560)	(560)
Change in cash on No 1 account			(2)		(2)	(2)
Net increase in loan notes		346			346	346
Balances at 31 March 2023	**21,908**	**(15,713)**	**(56)**	**(270)**	**(16,039)**	**5,869**

Lending to the IMF	**£m**
Lending as at 31 March 2022	198
Loans advanced in 2022-23	-
Loans repaid in 2022-23	(138)
Gain on foreign exchange	6
Lending as at 31 March 2023	**66**
IMF Quota Subscription and Lending	**21,974**

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

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

Separately, the EEA also holds the UK's allocation of SDRs (SDR 29,452 million at 31 March 2023) as a liability to the IMF and retains an asset in the form of the UK's holdings of SDRs (SDR 30,659 million at 31 March 2023). In August 2021, the IMF conducted a general allocation of SDRs, allocating the UK SDR 19,318 million. This increased the UK's existing allocation of SDRs (SDR 10,134 million as at 31 March 2021) to the current SDR 29,451 million.

During 2022-23 a net payment was made from quota of £346 million to the IMF in support of funding programmes (a net payment to the IMF of £466 million was made in 2021-22).

Aside from the UK's quota subscription to the IMF of 20,155 million Special Drawing Rights (SDRs) - equivalent to £21,908 million at 31 March 2023, the UK partakes in two IMF borrowing arrangements which increase the NLF's overall exposure to the IMF:

1. The New Arrangements to Borrow (NAB): The NAB acts as a second line of defence to IMF resources should quotas be exhausted. It requires creditor consent to activate, by an 85% supermajority based on total NAB shareholdings. The UK's NAB commitment is SDR 18,958 million (£20,608 million as of 31 March 2023 exchange rate). This agreement is due to expire in December 2025.

2. Bilateral Borrowing Agreements (BBAs): BBAs serve as a third line of defence after quotas and the NAB. The UK's bilateral borrowing agreement is SDR 3,954 million (£4,298 million at the 31 March 2023 exchange rate). The UK's BBA agreement was due to expire in December 2023. At the IMF's request, the UK has agreed to extend its BBA agreement for a further 12 months until 31 December 2024.

The UK's total commitments to borrowed resource (NAB and BBA) therefore stands at SDR 22,912 (£24,906 million at the 31 March 2023 exchange rate).

The UK also supports the IMF outside of the NLF, through the channelling of Special Drawing Right (SDR) assets held in the Exchange Equalisation Account (EEA) to IMF trusts. In October 2021, the UK committed to channel up to SDR 4 billion (c.20%) of the SDRs the UK received as part of the IMF's 2021 General Allocation of SDRs. These commitments were delivered in full in April 2023, with the UK providing an additional SDR 1.5bn to the IMF's Poverty Reduction and Growth Trust (PRGT), taking total UK lending to the PRGT to SDR 5.5bn, and SDR 2.5bn to the IMF's Resilience and Sustainability Trust (RST).

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

	At 31 March 2023			At 31 March 2022		
	Total commitment	**Total drawn**	**Total undrawn**	Total commitment	Total drawn	Total undrawn
Quota (SDRm)	**20,155**	**5,399**	**14,756**	20,155	5,088	15,067
Loans (SDRm)	**22,912**	**61**	**22,851**	22,912	188	22,724
Total (SDRm)	**43,067**	**5,460**	**37,607**	43,067	5,276	37,791
Quota (£m)	**21,908**	**5,869**	**16,039**	21,227	5,358	15,869
Loans (£m)	**24,906**	**66**	**24,840**	24,131	198	23,933
Total (£m)	**46,814**	**5,935**	**40,879**	45,358	5,556	39,802

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

10. Gilt-edged stock

	Conventional	Index-Linked	Total
	£m	£m	£m
At 31 March 2022	1,653,769	577,714	2,231,483
Receipts from gilt issuance	153,383	17,720	171,103
Payments for gilt redemption	(94,370)	(26,554)	(120,924)
Net issuance of DMA gilts	57,455	-	57,455
Amortisation of premiums and discounts	(2,673)	5,639	2,966
Change in accrued interest	882	57,678	58,560
At 31 March 2023	**1,768,446**	**632,197**	**2,400,643**

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

Syndication fees are borne by the NLF and are netted off from gross issuance proceeds as part of the calculation of amortised cost. Other directly related issue costs for assets and liabilities are negligible and are written-off as incurred. Total syndication fees for the year were £48.0 million (2021-22: £70.3 million).

The analysis below shows two large holdings of the gilt liability by UK public sector entities, the DMA and Bank of England[13].

	At 31 March 2023	At 31 March 2022
	£m	£m
Debt Management Account (DMA)	**169,079**	105,877
Bank of England (for quantitative easing)	**729,402**	765,260
Other investors	**1,502,162**	1,360,346
Total gilt-edged stock	**2,400,643**	2,231,483

[13] This analysis is based on the proportion of the total nominal value of each gilt held by the respective entities. Figures will differ from the value shown in the accounts of the other entities if an alternative valuation method is applied by those entities.

11. National Savings and Investments products

	2022-23	2021-22
	£m	£m
Principal outstanding at 1 April	**206,596**	202,502
Cash repayments from the National Loans Fund	**(45,681)**	(40,831)
Principal cash received in the National Loans Fund	**52,728**	44,273
Capitalised interest and other returns to savers	**2,603**	841
Change in cash holdings for principal	**429**	(189)
Principal outstanding at 31 March	**216,675**	206,596
Accrued interest and other returns to savers	**1,579**	1,031
Total principal and accrued interest outstanding	**218,254**	207,627

NS&I provides more detail on this liability in a set of Product Accounts which are published with the NS&I resource accounts on the NS&I website[14].

12. Other debt payable

	At 31 March 2023	At 31 March 2022
	£m	£m
Debt Management Account	**20,654**	30,302
Bank of England Issue Department	**371**	370
Balances from government accounts at Government Banking	**41,099**	54,366
Deposits from public sector bodies	**17,436**	17,476
Other	**279**	416
Total other debt payable	**79,839**	102,930

The third item reflects the transfer to the NLF of any temporary cash surpluses on other government accounts held at Government Banking. Deposits from public sector bodies represents deposits by public sector bodies which are directly held with the NLF. “Other” comprises mostly certificates of tax deposit held by the NLF. From 23 Nov 2017, the CTD scheme has been closed for new purchases, but existing certificates will continue to be honoured until 23 November 2023.

At 31 March 2023, there was no foreign currency debt outstanding in the NLF.

[14] https://www.gov.uk/government/collections/national-savings-and-investments-annual-report-and-accounts

13. Reconciliation of liabilities arising from financing activities

	Liability at 1 April 2022	Interest paid (cashflow from operating activities)	Cashflow from financing activities	Finance costs of borrowing (Note 2)	Exchange rate gains (Note 9)	Movement in cash held by third parties on behalf of the NLF	Liability at 31 March 2023
		£m	£m	£m	£m	£m	£m
Gilt-edged stock	2,231,483	(38,919)	107,634	100,445	-	-	**2,400,643**
National Savings and Investments products	207,627	(2,352)	7,047	5,482	-	450	**218,254**
Other debt	102,930	(1,121)	(23,332)	1,362	-	-	**79,839**
Liabilities to the IMF	15,869	-	214	-	(46)	2	**16,039**
Total	**2,557,909**	**(42,392)**	**91,563**	**107,289**	**(46)**	**452**	**2,714,775**

14. Fair Values

Carrying Value and Fair Value of NLF assets and liabilities

	At 31 March 2023		At 31 March 2022	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Assets	**£m**	**£m**	£m	£m
Advances:				
Public Works Loan Board	**95,733**	**80,578**	90,690	100,897
Debt Management Account	**-**	**-**	15,000	15,000
Exchange Equalisation Account	**65,147**	**65,147**	65,947	65,947
Accrued interest	**654**	**654**	613	613
Loans:				
Principal	**4,341**	**4,050**	3,962	4,286
Accrued interest	**16**	**16**	18	18
Other assets	**106,281**	**106,281**	99,717	99,717
IMF quota subscription & lending	**21,974**	**21,974**	21,425	21,425
Total assets	**294,146**	**278,700**	297,372	307,903
Liabilities				
Gilts	**2,400,643**	**2,142,150**	2,231,483	2,572,499
National Savings & Investments:				
Principal	**216,675**	**216,235**	206,596	206,503
Accrued interest	**1,579**	**1,577**	1,031	1,030
IMF liabilities	**16,039**	**16,039**	15,869	15,869
Other debt:				
Debt Management Account	**20,654**	**20,654**	30,302	30,302
Issue Department of Bank of England	**371**	**371**	370	370
Government balances	**41,099**	**41,099**	54,366	54,366
Deposits from public sector bodies	**17,436**	**17,436**	17,476	17,476
Foreign currency debt	**-**	**-**	-	-
Other	**279**	**279**	416	416
Total liabilities	**2,714,775**	**2,455,840**	2,557,909	2,898,831

The NLF's assets are classified as financial assets except for the net assets of the EEA (£40,374 million, 2021-22: £37,532 million) and DMA (£63,009 million, 2021-22: £59,739 million), reported in Other Assets (note 8). The carrying value of financial assets is £190,763 million (2021-22: £200,101 million) and their fair value is £175,317 million (2021-22: £210,632 million). All the NLF's liabilities are financial liabilities. In instances where the fair value differs from the carrying value, the fair value has been calculated by reference to market prices where instruments are traded on an active quoted market or, where this is not the case, as the net present value of future cash flows.

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

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

Note 15. Maturity of assets and liabilities

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

			At 31 March 2023			At 31 March 2022
	Current	**Non-current**	**Total**	Current	Non-current	Total
	£m	**£m**	**£m**	£m	£m	£m
Assets						
Advances	**4,485**	**157,049**	**161,534**	3,347	168,903	172,250
Loans	**444**	**3,913**	**4,357**	348	3,632	3,980
Other assets	**2,898**	**103,383**	**106,281**	2,446	97,271	99,717
IMF quota subscription (SDR) & lending	**-**	**21,974**	**21,974**	-	21,425	21,425
Total assets	**7,827**	**286,319**	**294,146**	6,141	291,231	297,372
Liabilities						
Gilts						
Conventional	**114,457**	**1,653,989**	**1,768,446**	100,526	1,553,243	1,653,769
Index-linked	**23,627**	**608,570**	**632,197**	25,315	552,399	577,714
Gilt-edged stock	**138,084**	**2,262,559**	**2,400,643**	125,841	2,105,642	2,231,483
National Savings and Investments	**215,046**	**3,208**	**218,254**	201,885	5,742	207,627
IMF liabilities	**-**	**16,039**	**16,039**	-	15,869	15,869
Other debt payable	**79,339**	**500**	**79,839**	102,430	500	102,930
Total liabilities	**432,469**	**2,282,306**	**2,714,775**	430,156	2,127,753	2,557,909

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

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

	At 31 March 2023			At 31 March 2022		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	£m	**£m**	**£m**	£m	£m	£m
Assets						
Balances with:						
Other central government bodies	**7,659**	**263,988**	**271,647**	6,030	269,356	275,386
NHS Trusts	**-**	**-**	**-**	-	-	-
Public corporations and trading funds	**168**	**356**	**524**	111	450	561
Total intra government balances	**7,827**	**264,344**	**272,171**	6,141	269,806	275,947
Balances with bodies external to government	**-**	**21,975**	**21,975**	-	21,425	21,425
Total assets	**7,827**	**286,319**	**294,146**	6,141	291,231	297,372
Liabilities						
Balances with:						
Other central government bodies	**71,536**	**163,651**	**235,187**	89,240	103,045	192,285
NHS Trusts	**12,656**	**-**	**12,656**	15,299	-	15,299
Public corporations and trading funds	**42,162**	**705,051**	**747,213**	14,695	767,416	782,111
Total intra government balances	**126,354**	**868,702**	**995,056**	119,234	870,461	989,695
Balances with bodies external to government	**306,115**	**1,413,604**	**1,719,719**	310,922	1,257,292	1,568,214
Total liabilities	**432,469**	**2,282,306**	**2,714,775**	430,156	2,127,753	2,557,909

16. Financial risks related to the NLF

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

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

This is achieved by:

- meeting the principles of openness, transparency and predictability
- developing a liquid and efficient gilt market

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

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

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

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

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

Interest rate and inflation risk

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

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

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

Interest rate and inflation risk analysis as at 31 March 2023

	Up to 1 month/ repayable on demand £m	1-12 months £m	1-5 years £m	Over 5 years £m	Zero-rated £m	Total carrying value £m	Fixed rate £m	Floating rate £m
Assets								
Advances	448	3,752	11,013	80,425	65,896	**161,534**	95,175	463
Loans	12	416	1,414	2,499	16	**4,357**	4,341	-
Other assets	-	-	-	-	106,281	**106,281**	-	-
IMF quota subscription	-	-	-	-	21,908	**21,908**	-	-
IMF loans	-	-	-	-	66	**66**	-	-
Total	**460**	**4,168**	**12,427**	**82,924**	**194,167**	**294,146**	**99,516**	**463**
Liabilities								
Gilts								
Conventional	-	105,832	481,366	1,172,622	8,626	**1,768,446**	1,759,820	-
Index-linked	631,442	-	-	-	755	**632,197**	-	631,442
Gilt-edged stock	631,442	105,832	481,366	1,172,622	9,381	**2,400,643**	1,759,820	631,442
National Savings and Investments	201,578	10,150	4,896	-	1,630	**218,254**	15,399	201,225
IMF liabilities	-	-	-	-	16,039	**16,039**	-	-
Other debt payable	38,255	13,885	500	-	27,199	**79,839**	17,295	35,345
Total	**871,275**	**129,867**	**486,762**	**1,172,622**	**54,249**	**2,714,775**	**1,792,514**	**868,012**
Period gap	**870,815**	**125,699**	**474,335**	**1,089,698**	**(139,918)**	**2,420,629**		
Cumulative gap	**870,815**	**996,514**	**1,470,849**	**2,560,547**	**2,420,629**			

Interest rate and inflation risk analysis as at 31 March 2022

	Up to 1 month/ repayable on demand £m	1-12 months £m	1-5 years £m	Over 5 years £m	Zero-rated £m	**Total carrying value £m**	Fixed rate £m	Floating rate £m
Assets								
Advances	15,539	2,594	9,646	77,910	66,561	**172,250**	90,289	15,400
Loans	19	311	1,413	2,219	18	**3,980**	3,962	-
Other assets	-	-	-	-	99,717	**99,717**	-	-
IMF quota subscription	-	-	-	-	21,227	**21,227**	-	-
IMF loans	-	-	-	-	198	**198**	-	-
Total	**15,558**	**2,905**	**11,059**	**80,129**	**187,721**	**297,372**	**94,251**	**15,400**
Liabilities								
Gilts								
Conventional	-	92,781	412,331	1,140,912	7,745	**1,653,769**	1,646,024	-
Index-linked	576,886	-	-	-	828	**577,714**	-	576,886
Gilt-edged stock	576,886	92,781	412,331	1,140,912	8,573	**2,231,483**	1,646,024	576,886
National Savings and Investments	195,512	3,352	7,667	-	1,096	**207,627**	11,379	195,152
IMF liabilities	-	-	-	-	15,869	**15,869**	-	-
Treasury Bills for FLS	-	-	-	-	-	**-**	-	-
Other debt payable	50,704	14,115	500	-	37,611	**102,930**	17,463	47,856
Total	**823,102**	**110,248**	**420,498**	**1,140,912**	**63,149**	**2,557,909**	**1,674,866**	**819,894**
Period gap	**807,544**	**107,343**	**409,439**	**1,060,783**	**(124,572)**	**2,260,537**		
Cumulative gap	**807,544**	**914,887**	**1,324,326**	**2,385,109**	**2,260,537**			

Foreign currency risk

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

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

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

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

	2022-23	2021-22
	Statement of Comprehensive Net Expenditure	Statement of Comprehensive Net Expenditure
	£m	£m
UK interest rates + 100bp expense	**2,361**	2,276
UK Retail Prices Index + 100bp expense	**6,314**	5,769
SDR exchange rate + 10% income	**(593)**	(556)

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

Liquidity risk
Liquidity risk is the risk that the NLF will encounter difficulty in meeting obligations associated with financial liabilities. Its exposure to liquidity risk arises because of its fundamental purpose of being the Government's main borrowing account. NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments, and thus liquidity risk, across a wide time period into the future. The longest stock in existence at 31 March 2023 matures in 2073. Deposits in the NLF have a shorter maturity profile since they can change on demand. However, in practice, balances change only slowly due to re-investment. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing and redemption of the NLF's liabilities are expected to be met over the long term mainly through future tax revenue receipts. Whilst the level of receipts in any year is subject to tax policy changes and, relatedly the UK's economic position, the level of debt required to meet government expenditure, including the servicing of debt, can be maintained by the issuance or reissuance of further debt, the demand for which remains robust. Therefore, in accordance with the Government Financial Reporting Manual, it has been concluded as appropriate to adopt the going concern basis of preparation for the NLF Accounts. Most of the NLF's borrowing needs are met through borrowing on its behalf by the DMO and NS&I.

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

The treatment of coupon payments is of particular significance. The table includes contractual coupon payments for the period to maturity based on coupon rates and, in the case of index-linked gilts, the Retail Prices Index at 31 March 2023. Because of the many coupon payments to be made for longer dated gilts the table below reports coupon cash flows of £652,165 million (£619,397 million at 31 March 2022) whereas the gilts liability in the Statement of Financial Position contains coupon accruals to the end of the reporting period of £9,480 million (£8,660 million at 31 March 2022).
The cash flows reported in the table will be funded by replacement debt issues, the proceeds of assets or by finance from the Consolidated Fund.

Contractual cash outflows as at 31 March 2023

	0-12 months	1-2 years	2-5 years	Over 5 years	Undated	Total
Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Conventional Gilts:						
Principal	**105,831**	**145,314**	**333,758**	**1,157,451**	**-**	**1,742,354**
Coupons	**37,705**	**36,457**	**95,750**	**432,570**	**-**	**602,482**
Index-Linked Gilts:					**-**	
Principal	**22,657**	**23,969**	**45,081**	**473,802**	**-**	**565,509**
Coupons	**3,761**	**3,433**	**9,354**	**33,134**	**-**	**49,682**
Total Gilts	**169,954**	**209,173**	**483,943**	**2,096,957**	**-**	**2,960,027**
National Savings and Investments	**214,995**	**1,372**	**1,836**	**-**	**52**	**218,255**
IMF	**16,039**	**-**	**-**	**-**	**-**	**16,039**
Temporary Deposits	**17,131**	**-**	**-**	**-**	**-**	**17,131**
Other debt payable	**62,406**	**2**	**503**	**-**	**-**	**62,911**
	480,525	**210,547**	**486,282**	**2,096,957**	**52**	**3,274,363**

The maturity of liabilities after five years is:

	5-10 years	10-20 years	20-30 years	30-40 years	Over 40 years	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Conventional Gilts:						
Principal	**335,376**	**321,656**	**269,504**	**155,331**	**75,584**	**1,157,451**
Coupons	**128,800**	**173,167**	**87,710**	**32,830**	**10,063**	**432,570**
Index-Linked Gilts:						
Principal	**97,341**	**152,612**	**126,011**	**63,274**	**34,564**	**473,802**
Coupons	**12,366**	**12,576**	**6,037**	**1,935**	**220**	**33,134**
	573,883	**660,011**	**489,262**	**253,370**	**120,431**	**2,096,957**

Contractual cash outflows as at 31 March 2022

Liabilities	0-12 months £m	1-2 years £m	2-5 years £m	Over 5 years £m	Undated £m	Total £m
Conventional Gilts:						
Principal	92,765	103,116	304,933	1,092,318	-	1,593,132
Coupons	33,941	33,042	88,650	416,522	-	572,155
Index-Linked Gilts:					-	
Principal	24,320	19,978	37,889	427,916	-	510,103
Coupons	3,768	3,312	8,508	31,654	-	47,242
Total Gilts	154,794	159,448	439,980	1,968,410	-	2,722,632
National Savings and Investments	201,821	3,650	2,092	-	65	207,628
IMF	15,869	-	-	-	-	15,869
Temporary Deposits	17,015	-	-	-	-	17,015
Other debt payable	85,456	2	504	-	-	85,962
	474,955	163,100	442,576	1,968,410	65	3,049,106

The maturity of liabilities after five years is:

	5-10 years £m	10-20 years £m	20-30 years £m	30-40 years £m	Over 40 years £m	Total £m
Conventional Gilts:						
Principal	331,982	294,158	245,213	153,873	67,092	1,092,318
Coupons	121,703	165,446	84,813	33,961	10,599	416,522
Index-Linked Gilts:						
Principal	83,195	134,709	127,144	55,792	27,076	427,916
Coupons	11,657	12,141	5,706	1,965	185	31,654
	548,537	606,454	462,876	245,591	104,952	1,968,410

Credit risk

The NLF makes loans to UK public corporations and central government entities, advances to other UK central Exchequer Funds and subscribes to the IMF. The NLF also lends to the IMF. As a result, the NLF is not exposed to significant credit risk. Details of this can be found in notes 6, 7 and 9. Total loans and advances stand at £165,891 million (2022-23: £176,230 million) and gross IMF exposure stands at £21,425 million (2021-22: £21,425 million).

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

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

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

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

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

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

Derivatives and hedging
The NLF itself does not use derivatives or undertake hedging. However, some of the risks on the NLF are offset by the activities of the EEA. The Exchange Equalisation Account Act 1979 constrains how the EEA may borrow from outside government. Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the NLF. The foreign currency raised is sold by the NLF to the EEA for sterling. While the NLF remains exposed to the interest and exchange rate risks from the foreign currency debt it has issued, in practice these risks are offset through the EEA's programme of asset management and swaps. There was no foreign currency debt outstanding in the NLF at 31 March 2023.

17 Related Parties

The Treasury is the ultimate controlling party of the NLF. There have been no direct transactions between the Treasury and the NLF in 2022-23. As at 31 March 2023 £500 million proceeds of debt issuance from Treasury Group is deposited with the NLF.

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

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

18 Events after the Reporting Period

There are no events after the reporting period to report.

19 Date of Authorisation for Issue of Account

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

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This document can be downloaded from www.gov.uk

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