HM Treasury

Whole of Government Accounts

year ended 31 March 2022

HC 603

March 2024

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Chapter 1
Performance Report

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

Overview of the Whole of Government Accounts for 2021-22, including the basis on which the accounts are prepared and what is included in them

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

Significant matters of interest, including developments since the end of the 2021-22 reporting period

Analysis of the WGA Financial Statements for 2021-22, including trend data and additional context for key balances

Other matters reported on, showing progress against central government objectives

Overview

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

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

1.3 The headlines for WGA 2021-22 show:

	2021-22 £bn	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn
Income	(881.6)	(731.5)	(813.3)	(795.6)	(764.5)
Expenditure	1,044.4	1,063.0	918.7	851.8	808.8
Total assets	2,414.3	2,206.7	2,138.5	2,098.8	2,013.8
Total liabilities	(6,289.2)	(5,533.0)	(4,972.7)	(4,554.6)	(4,579.4)

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

	2021-22 £bn	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn
Commitments	208.1	194.8	205.8	183.7	168.7
Contingent Liabilities	107.0	66.1	68.0	80.1	83.7

1.5 This publication presents the financial statements for the 2021-22 financial year as well as information on more recent events where we feel this would be useful to the reader. These include the economic and fiscal context section below (from paragraph 1.33) and information on Covid-19 spending since March 2020 (from paragraph 1.82). It also sets out the effect of a lower rate of data submission for 2021-22, as 178 bodies are not consolidated this year (see paragraph 1.6 onwards).

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

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

WGA is unique in that it consolidates financial information from across the whole public sector in line with International Financial Reporting Standards, and is audited. This breadth and scrutiny creates many challenges and exposes WGA to an unusual scale of audit qualifications not seen in many sets of financial accounts. The Governance Statement in Chapter 3 outlines how these qualifications arise and the work being done to limit WGA's exposure to qualifications in future.

Why do we prepare WGA?

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

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

WGA and National Accounts

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

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

Income

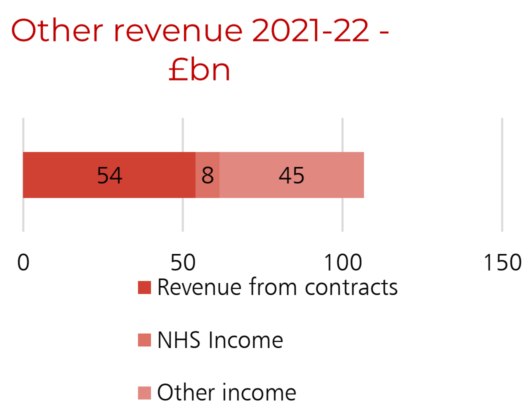
Most public sector expenditure is financed through tax income.

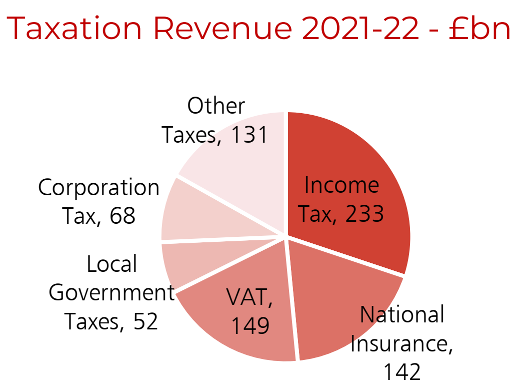
Income type	2021-22 £bn	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn
Income tax	233.4	191.9	194.2	194.0	186.0
National Insurance	142.1	125.8	126.6	120.4	118.4
VAT	148.7	122.1	137.2	135.6	128.6
Other central government tax	199.0	161.1	169.8	168.9	166.4
Local government tax	51.5	49.8	68.9	66.8	62.2
Other revenue	106.9	80.8	116.6	109.9	102.9
Total income	**881.6**	**731.5**	**813.3**	**795.6**	**764.5**

These figures do not include the impact of missing data, see section from paragraph 1.6.

WGA income

In addition to tax income, government generates income from a wide variety of sources. Revenue from contracts includes £26.6 billion from sales of goods and services. Of the EU income total of £1.9 billion, a significant element (£0.5 billion) is spent by Defra on payments under the Common Agricultural Policy and other EU initiatives. NHS income is made up of a variety of sources, including income from private patients (£0.5 billion)





Tax income

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

Expenditure

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

Expenditure type	2021-22 £bn	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn
Social security	259.7	258.4	240.0	230.3	225.9
Staff costs	284.5	253.5	235.3	255.7	215.8
Purchases of goods and services	256.2	238.7	223.6	206.5	207.4
Grants and subsidies	121.0	197.2	62.2	58.8	51.2
Debt interest	47.1	21.2	31.8	31.6	36.8
Other	75.9	94.0	125.8	68.9	71.7
Total expenditure on public services	**1,044.4**	**1,063.0**	**918.7**	**851.8**	**808.8**

These figures do not include the impact of missing data, see section from paragraph 1.6.

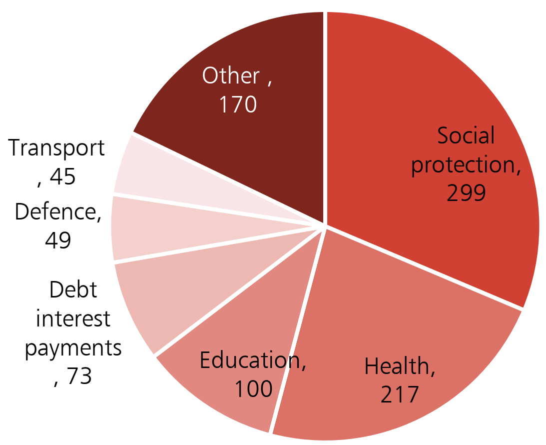
Social security benefits

Social security benefits make up 25% of government expenditure. A significant proportion (41% of total benefits) is made up of the State Pension, with 5% made up of Housing Benefit, 13% paid in disability and carers' benefits and 23% paid as working age benefits.

Staff costs

Staff costs also account for a large proportion of expenditure (27%). This includes salaries and wages of £175.6 billion and pension scheme costs of £105.5 billion. Permanent staff make up 95% of all staff costs.

Main areas of functional spending 2021-22 - £bn



Alternative views of expenditure

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

Drilling down into further analysis has been challenging but the Treasury also publishes Public Expenditure Statistical Analysis (PESA) and Country and Regional Analysis, which provides an alternative functional insight and regional breakdown of public spending. This chart reports the PESA functional analysis for 2021-22. This can be reconciled to WGA total spend (see expenditure section for more detail).

Assets

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

Asset type	2021-22 £bn	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn
Property, plant and equipment	1,340.4	1,270.3	1,313.3	1,268.0	1,208.4
Other financial assets	724.8	605.7	516.2	514.9	507.6
Trade and other receivables	215.6	202.9	182.0	190.3	179.9
Other assets	133.5	127.8	127.0	125.6	117.9
Total assets	**2,414.3**	**2,206.7**	**2,138.5**	**2,098.8**	**2,013.8**

These figures do not include the impact of missing data, see section from paragraph 1.6.

Property, plant and equipment

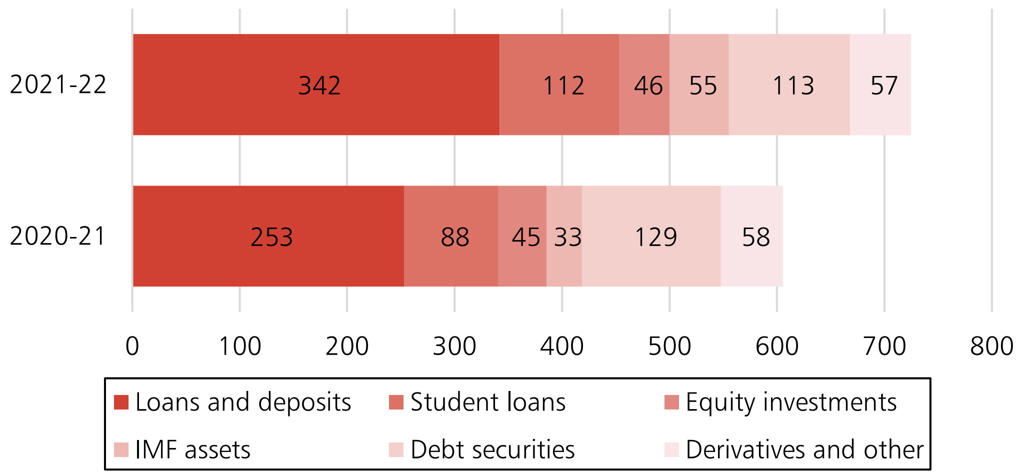
Property, plant and equipment (PPE) comprises 56% of assets in WGA. The largest components of PPE are land and buildings, and infrastructure assets – which includes the road and rail network.

Trade and other receivables

The most significant government receivable is taxation income due of £176.4 billion. This includes amounts of tax and duties where the taxable event has occurred but the return has not been received from the taxpayer by the year end.

Other financial assets

Other financial assets include loans and deposits, the student loan book, equity investments and debt securities. Some are held for cash management purposes and others to support specific policy objectives. Equity investments includes shares in NatWest.



Liabilities

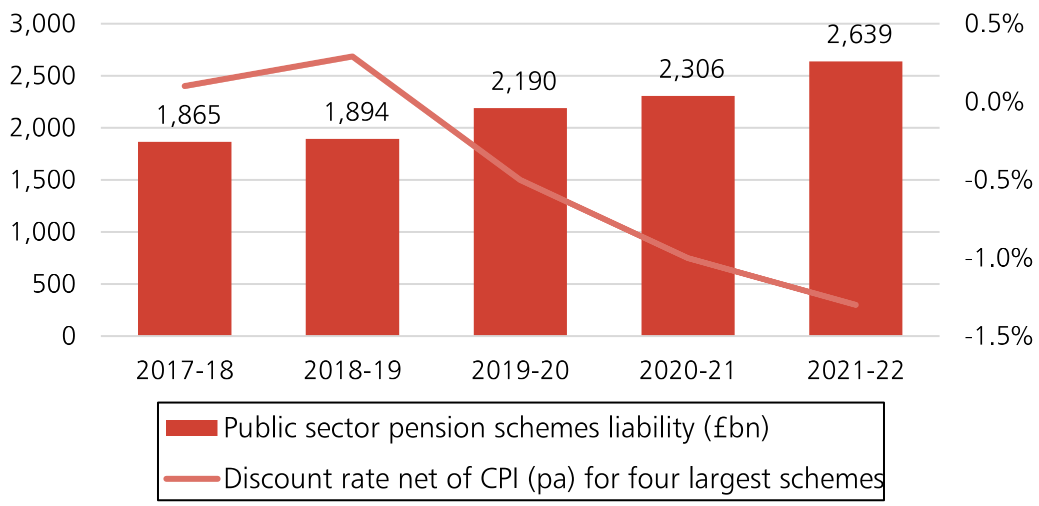
Key public sector liabilities are the net public sector pension liability, government borrowings, other financial liabilities and provisions.

Liability type	2021-22 £bn	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn
Public sector pensions	2,639.1	2,306.2	2,189.5	1,893.9	1,865.3
Government borrowings	1,575.7	1,520.3	1,445.4	1,407.2	1,347.4
Other financial liabilities	1,334.0	1,118.8	761.9	750.2	752.8
Provisions	527.8	366.4	374.8	311.4	422.5
Trade and other payables	212.6	221.3	201.1	191.9	191.2
Total liabilities	**6,289.2**	**5,533.0**	**4,972.7**	**4,554.6**	**4,579.2**

These figures do not include the impact of missing data, see section from paragraph 1.6.

Public sector pension liability

Public sector pensions are the largest liability within WGA at £2,639.1 billion. Pension valuations are impacted by changes in the discount rate used to calculate the present value and changes to actuarial assumptions such as on inflation and salary growth, life expectancy and workforce size.



Government borrowings

The primary form of government debt is gilts. Total gilts stand at £1,332.0 billion. Other components include Treasury Bills and NS&I products.

Provisions

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

Commitments and contingent liabilities

Commitments and contingent liabilities are disclosed but are not sufficiently likely to be recognised in the statement of financial position.

	2021-22 £bn	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn
Commitments	208.1	194.8	205.8	183.7	168.7
Remote Contingent Liabilities	179.0	263.8	379.5	306.7	318.9
Non-Remote Contingent Liabilities	107.0	66.1	68.0	80.1	83.7

These figures do not include the impact of missing data, see section from paragraph 1.6.

Types of liability in WGA

The WGA balance sheet shows £6.3 trillion of liabilities. In addition to these, there are commitments which are not recognised on the balance sheet.

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

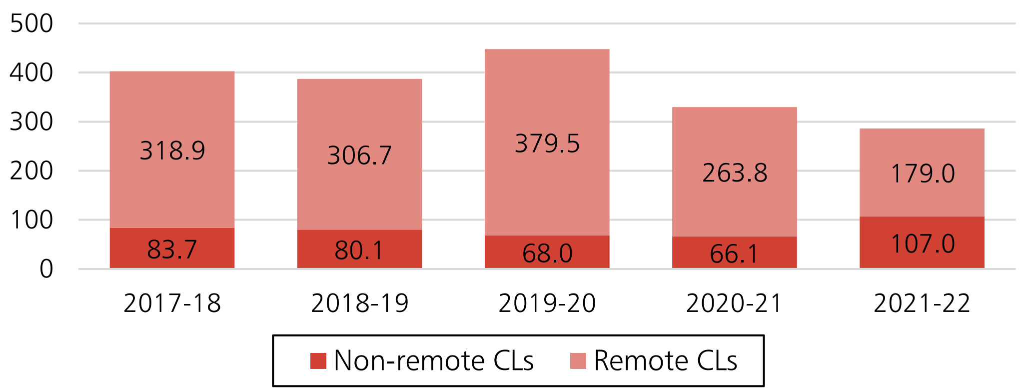
Commitments

Commitments captured in WGA total £208.1 billion. These include £53.3 billion in capital commitments, £33.5 billion in commitments under leases, £30.6 billion in PFI finance lease commitments and £90.7 billion in other financial commitments.

Contingent liabilities

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

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



Scope of WGA

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

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

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

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

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

What is not in WGA in 2021-22

The list of bodies consolidated into WGA is not identical every year. Component bodies are created, merged and dissolved, and classified into and out of the public sector. In some cases, bodies that are required to do not submit data for consolidation.

2019-20 saw a lack of data from 21 bodies which was more than in previous years. We saw this as a serious issue, but this was not significant to WGA as a whole. The number of bodies not submitting consolidation data for 2020-21 was much higher, as 155 bodies did not submit. There were a number of reasons for this, and ongoing audit issues in the English local government sector were a contributing factor as well as a reduction in submission rates from Scottish central government bodies. For WGA 2021-22, 178 bodies did not submit data for consolidation, with 157 of those being local authorities.

Some areas of WGA 2021-22 are affected by this missing data more than others. An estimate of the effect on the Statement of Financial Position and Statement of Revenue and Expenditure is presented below from paragraph 1.6.

Data missing from WGA 2021-22

1.6 The list of bodies consolidated into WGA is not identical every year. In some cases, bodies do not submit data for consolidation as they are required to. Historically, the number of bodies which have failed to submit data for consolidation has been low and was not disproportionate to other changes to the list of bodies consolidated, such as changes in classification. 2019-20 saw a lack of data submitted from 21 bodies, which was higher than usual, but this was not material to WGA as a whole. The number of bodies not submitting consolidation data for 2020-21 was much higher, as 155 bodies did not submit.

1.7 For 2021-22, 178 bodies did not submit data. 27 bodies did not submit in 2020-21 but then returned data for 2021-22, however 52 bodies submitted in 2020-21 but did not submit in 2021-22. Due to the absence of data, it is not possible to calculate the exact amount missing from 2021-22, but the most recent submissions from those missing bodies can be used as a proxy. The table below shows the totals for WGA 2021-22 alongside an estimate of the value of the missing data for those bodies which didn't submit in 2021-22. This estimate may be from either WGA 2020-21 or 2019-20 data, depending on when each entity last submitted a return. 16 small bodies have not submitted data since 2018-19 or earlier and these are not included in the estimates of missing data below.

	WGA 2021-22 (£bn)	Estimated missing data (£bn)	Percentage of total	WGA 2020-21 (£bn)	Estimated missing data (£bn)	Percentage of total
Assets	2,414.3	148.0	6.1%	2,206.7	108.0	4.9%
Liabilities	(6,289.2)	(95.9)	1.5%	(5,533.0)	(182.3)	3.3%
Net liabilities	**(3,874.9)**	**52.1**	**(1.3%)**	**(3,326.3)**	**(74.3)**	**2.2%**
Income	(881.6)	(35.6)	4.0%	(731.5)	(29.2)	4.0%
Expenditure	1,241.2	64.4	5.2%	1,135.9	55.3	4.9%
Net expenditure	**359.6**	**28.8**	**8.0%**	**404.4**	**26.1**	**6.5%**

1.8 The table above demonstrates that despite being material, the missing data is a low proportion of key totals in percentage terms in 2021-22, as it was in the previous year. Therefore, WGA continues to present a comprehensive picture of the UK public sector and remains a useful and transparent set of accounts. A more granular analysis of the missing data across WGA's 2021-22 Statement of Revenue and Expenditure and Statement of Financial Position, showing which areas of the accounts are particularly affected, is presented below from paragraph 1.25.

1.9 The charts below show these estimates of missing data for 2021-22 and 2020-21 in the context of the overall trend in movement of these key totals over the last five years.

Chart 1.A: Assets and liabilities of the UK over time, with estimate of missing data (£ billion)

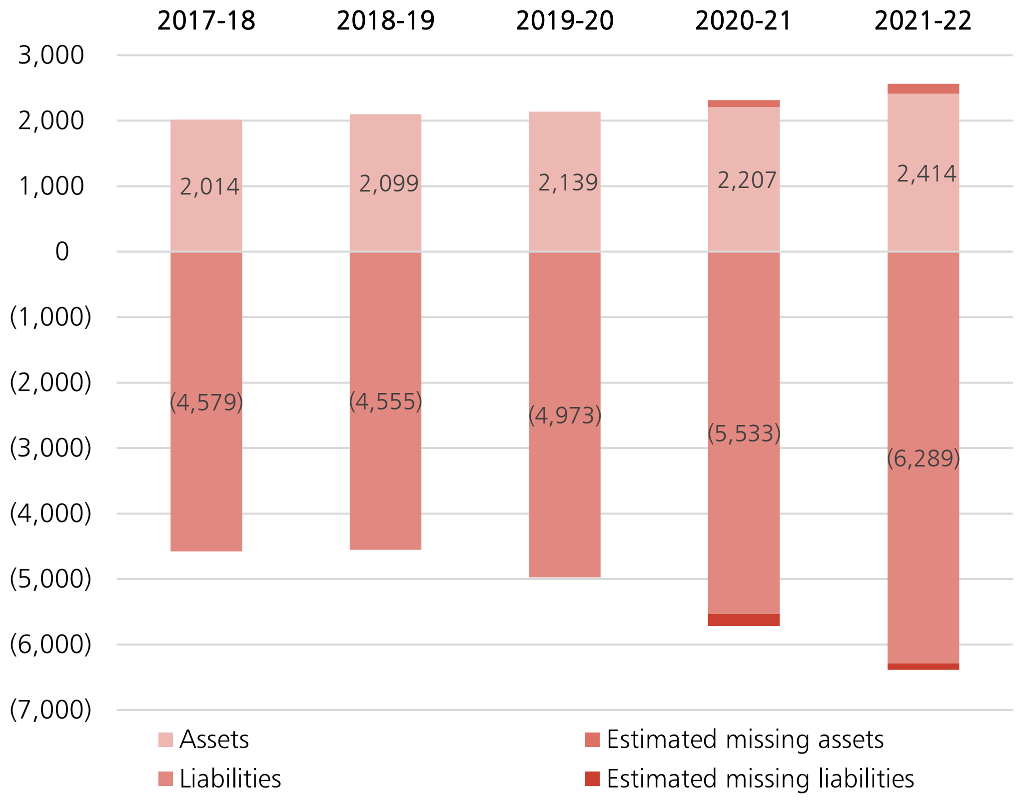
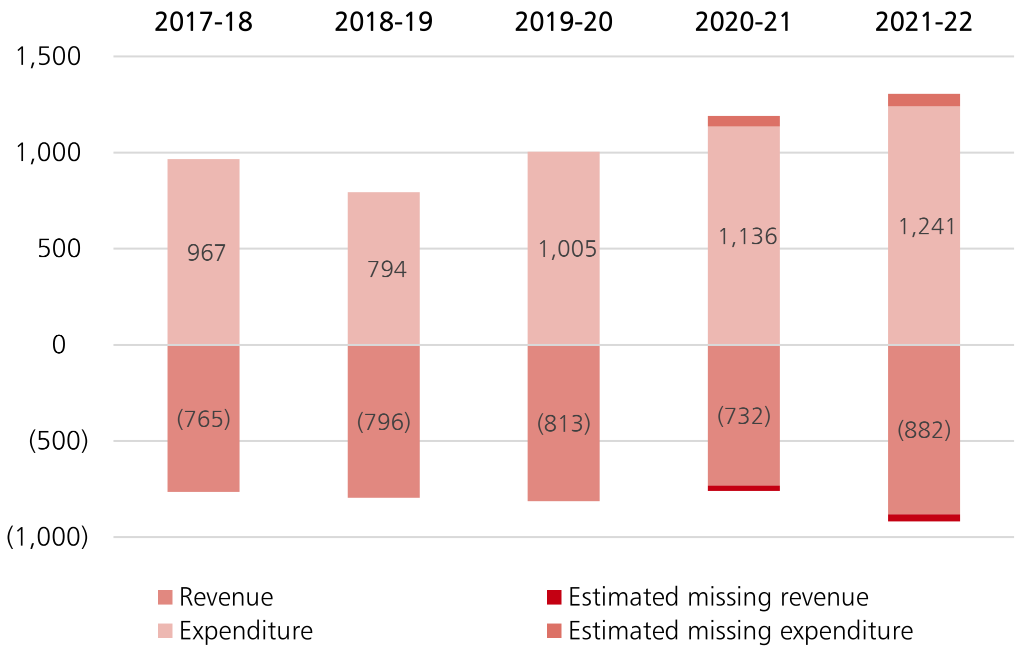


Chart 1.B: Income and expenditure of the UK over time, with estimate of missing data (£ billion)



Impact on consolidation process

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

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

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

1.13 Due to the nature of funding flows within the UK public sector, the missing data will mean that some balances within WGA 2020-21 and 2021-22 are shown at the correct amount but categorised differently to how they were in 2019-20 and earlier years. Grants from central government to local government bodies are a key example. All UK central government departments submitted consolidation data for 2020-21 and 2021-22, but a significant number of English local government bodies did not. Ordinarily, the pre-eliminations data would show a grant expense in the department, with a matching amount of grant income reported by local government bodies and then expenditure (on e.g. schools or social care) as the grant is used for its intended purpose. Consolidation adjustments would then be made to remove the matching grant expenditure and income, so that WGA as a whole shows only the ultimate expenditure on services. For the bodies that didn't submit data for consolidation this chain is broken, and WGA will show only the grant expenditure distributed to those bodies by central government.

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

Number of missing entities

1.15 A summary of the number of entities which did not submit data for 2021-22 is as follows:

Sector	Number of bodies	
	2021-22	2020-21
UK central government	0	3
Scottish central government	14	17
Total central government	**14**	**20**
English local government	146	118
Scottish local government	10	9
Welsh local government	1	1
Total local government	**157**	**128**
Public corporations	**7**	**7**
Total	**178**	**155**

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

1.17 During the data collection phase for WGA 2021-22, HM Treasury proactively engaged with both component finance teams and also with Finance Directors through the Government Finance Function's Finance

Leadership Group and individual meetings where appropriate. The Finance Leadership Group comprises of senior finance representatives from each government department, heads of other government functions and connected professions, HM Treasury Spending Directors, representatives from the Devolved Governments and the Small and Medium Departments Network. As a result of these efforts, WGA 2021-22 saw an increased number of submissions from central government bodies, including submissions from two material Scottish Pension Schemes which were the largest bodies that didn't provide data for 2020-21. However, despite writing out to individual section 151 officers, an increasing number of local government bodies did not submit a return in 2021-22 due to ongoing issues in the local audit market.

Reasons for non-submission

1.18 Data submissions for WGA 2021-22 opened on 31 January 2023. The submission deadlines set by HM Treasury were:

- 28 February 2023: Cycle 1 return of unaudited data
- 31 March 2023: Cycle 2 return of data based on audited accounts (with this data submission from bodies over the £2 billion threshold signed off by their auditors)

1.19 A significant number of WGA components, mainly in the local government sector, did not meet these Cycle 1 and Cycle 2 deadlines. In an effort to ensure as much data as possible was collected, HM Treasury kept the data collection window open past the submission deadline. During this period HM Treasury engaged with component bodies to encourage submission, and assisted with technical accounting queries and on using the OSCAR II data collection software.

1.20 Data submissions for WGA 2021-22 were closed on 21 August 2023. This was considered to be the latest date we could allow submissions, balancing the needs for quality and completeness with timely production. This deadline also allowed consolidation work to begin, and for the data collection software to be updated for WGA 2022-23 and tested before submissions for that year opened on 31 August.

1.21 The majority of bodies which didn't submit WGA data were in English local government. Ongoing issues and audit delays in the local government sector were the main reason for non-submission in this area. These issues, and the actions being taken by the Department for Levelling Up, Housing and Communities to address them, are discussed in more detail from paragraph 1.47 below.

1.22 As at 31 December 2023, Public Sector Audit Appointments (PSAA) disclosed[1] that the number of local government audit opinions that had not been issued for previous years totalled 771. A breakdown by year is included below:

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[1] Presentation (psaa.co.uk)

- 2022-23: 422 audits
- 2021-22: 223 audits
- 2020-21: 83 audits
- 2019-20: 31 audits
- 2018-19: 9 audits
- 2017-18: 1 audit
- 2016-17: 1 audit
- 2015-16: 1 audit

The publishing date for 2022-23 audited local government accounts was 30 September 2023. PSAA announced that at this date only 5 out of 467 local government audit opinions had been given. This added to the 456 opinions outstanding from previous years at that date.

1.23 An audit opinion for 2021-22 being outstanding would not necessarily prevent the entity from submitting draft WGA data for that year. However, if an audit from 2020-21 or an earlier year remained outstanding, that may have prevented preparation of draft accounts for the subsequent year or years. A number of draft local government accounts had not been published ahead of the 2021-22 data submission deadlines.

1.24 WGA bodies in Scotland provide data in line with administrative arrangements made by the Scottish Government, which acts as a system leader in this area. Some Scottish central government and local government bodies did not submit WGA returns due to resource constraints.

Estimate of data missing from WGA 2021-22

1.25 The tables below show the Statement of Revenue and Expenditure and Statement of Financial Position for 2021-22, together with an estimate of the impact of missing data on each line of these statements.

1.26 In the absence of data for 2021-22, the most recent data submitted by the missing entities has been used as a proxy for the impact they would have had on 2021-22. This data may be from either WGA 2020-21 or 2019-20, depending on when each entity last submitted a return.

Statement of Revenue and Expenditure

	Note	WGA 2021-22 £bn	Estimate of missing data £bn	WGA 2020-21 £bn	Estimate of missing data £bn
Taxation revenue	4	(774.7)	(14.8)	(650.7)	(11.7)
Other revenue	5	(106.9)	(20.8)	(80.8)	(17.5)
Total public services revenue		**(881.6)**	**(35.6)**	**(731.5)**	**(29.2)**
Social security benefits	6	259.7	7.6	258.4	6.3
Staff costs	7	284.5	20.3	253.5	19.0
Purchase of goods and services	8	256.2	26.7	238.7	19.6
Grants and subsidies	9	121.0	3.3	197.2	2.0
Depreciation and impairment	10	47.9	3.6	61.9	3.2
Interest costs on government borrowing	11	47.1	-	21.2	-
Increase/(decrease) in provisions	22	28.0	0.2	32.1	0.2
Total expenditure on public services		**1,044.4**	**61.7**	**1,063.0**	**50.3**
Net expenditure on public services		**162.8**	**26.1**	**331.5**	**21.1**
Financing costs of long-term liabilities, including discounting	11	197.2	2.4	55.7	4.8
Revaluation of financial assets and liabilities		(0.4)	0.3	17.2	0.2
Net (income)/expenditure for the year		**359.6**	**28.8**	**404.4**	**26.1**

Statement of Financial Position

	Note	WGA 2021-22 £bn	Estimate of missing data £bn	WGA 2020-21 £bn	Estimate of missing data £bn
Non-current assets					
Property, plant and equipment	12	1,340.4	112.6	1,270.3	81.6
Investment properties	13	14.8	10.7	16.5	7.6
Intangible assets	14	43.7	0.3	41.0	0.3
Trade and other receivables	15	22.4	2.9	20.6	2.5
Other financial assets	16	456.9	2.9	340.8	2.4
		1,878.2	**129.4**	**1,689.2**	**94.4**
Current assets					
Inventories	17	13.5	0.3	15.3	0.1
Trade and other receivables	15	193.2	5.6	182.3	4.3
Other financial assets	16	267.9	6.8	264.9	5.2
Cash and cash equivalents	18	45.6	5.2	39.6	3.4
Gold holdings	33	14.7	-	12.3	-
Assets held for sale		1.2	0.7	3.1	0.6
		536.1	**18.6**	**517.5**	**13.6**
Total assets		**2,414.3**	**148.0**	**2,206.7**	**108.0**
Current liabilities					
Trade and other payables	19	(160.8)	(11.2)	(169.3)	(8.4)
Government borrowings	20	(340.0)	-	(274.0)	-
Other financial liabilities	21	(1,030.4)	(2.3)	(943.3)	(2.0)
Provisions	22	(29.7)	-	(28.4)	-
		(1,560.9)	**(13.5)**	**1,415.0**	**(10.4)**
Non-current liabilities					
Trade and other payables	19	(51.8)	(7.2)	(52.0)	(6.1)
Government borrowings	20	(1,235.7)	-	(1,246.3)	-
Other financial liabilities	21	(303.6)	(6.5)	(175.5)	(6.3)
Provisions	22	(498.1)	(1.3)	(338.0)	(1.1)
Net public sector pension liability	24	(2,639.1)	(67.4)	(2,306.2)	(158.4)
Total non-current liabilities		**(4,728.3)**	**(82.4)**	**(4,118.0)**	**(171.9)**

Total liabilities	**(6,289.2)**	**(95.9)**	**(5,533.0)**	**(182.3)**
Net liabilities	**(3,874.9)**	**52.1**	**(3,326.3)**	**(74.3)**
Financed by taxpayers' equity:				
General reserve	(4,547.6)	52.1	(3,932.3)	(94.7)
Revaluation reserve	667.8	-	601.8	20.2
Other reserves	4.9	-	4.2	0.2
Total liabilities to be funded by future revenues	**(3,874.9)**	**52.1**	**(3,326.3)**	**(74.3)**

1.27 The estimated impact figures above are taken from data submitted by component entities in 2020-21 or 2019-20, adjusted for WGA consolidation adjustments made at an individual entity level. There are some other consolidation adjustments made at a higher (sector) level which are not reflected in an individual entity's figures and cannot be attributed to individual entities. As a result, the estimates presented are likely to be overstated as they do not reflect these sector level adjustments. Conversely, the general trend seen for bodies which submitted in both years was for many figures in the accounts to increase, so using these figures from earlier years as a proxy is likely to understate the level of missing data.

1.28 The figures shown above as estimates of the missing data will not agree exactly to the boundary adjustment figures shown in the notes to the financial statements or discussed in the narrative to those notes. The estimates shown above summarise the data submitted in 2020-21 or 2019-20 for the 178 entities which submitted data for those years but not for 2021-22. The boundary adjustment figures in the notes show that missing data, but also include the effects of bodies being created, merged and dissolved, and classified into and out of the public sector.

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

WGA 2022-23 and future years

1.30 HM Treasury's engagement strategy involved the Director of Public Spending regularly writing to Finance Directors and Section 151 Officers to emphasise the importance of WGA and strongly encourage them to submit data for 2022-23. During the data collection phase for WGA 2022-23, HM Treasury has also continued to pro-actively engage with component finance teams at the working level. A series of webinars providing guidance on the WGA data collection process, including updates for the implementation of IFRS 16, were attended by over 500 people across the UK public sector.

1.31 HM Treasury carried out additional engagement with central government Finance Directors through the Finance Leadership Group. HM Treasury has also increased engagement at a senior level with the Scottish Government, in order to strengthen and reinforce the Scottish Government's system leadership role for bodies in Scotland. In the local government sector, HM Treasury has established a working group and will consider other ways to increase engagement with local authorities.

1.32 HM Treasury hope that this proactive engagement at a senior level will encourage component bodies to prioritise timely submission of WGA data. However, the Accounting Officer of WGA is not ultimately responsible for any individual WGA component bodies. Where bodies are devolved and independent, HM Treasury has more limited influence, particularly with regard to local government components, which remain independent bodies. With other underlying factors such as the audit backlog in local government remaining, HM Treasury expect the lower level of submissions seen in WGA 2021-22 to also be an issue in 2022-23 and future years. The local government accountability and oversight section below (from paragraph 1.47) discusses the local government audit backlog in more detail, as well as the system-wide changes being put in place to resolve this.

Fiscal risk management framework

Economic and fiscal context

1.33 This section provides a forward-looking commentary on the Treasury's overall approach to managing the financial position and fiscal risk, including information on the economic and fiscal outlook as published by the Office for Budget Responsibility (OBR) in its March 2024 forecasts.

1.34 In the last few years, the economy has been buffeted by external shocks, including from the legacy of the Covid-19 pandemic and an energy price spike driven by Putin's illegal invasion of Ukraine. Despite this the economy has performed better than expected and the government has taken decisive action to protect households and businesses, inflation has halved, growth has been resilient, and debt is set to reduce in the medium term.

1.35 In November 2022 the OBR, in line with most external forecasters, expected a year-long recession starting Q3 2022 and for Gross Domestic Product (GDP) to fall by 1.4% in 2023, instead the economy grew by 0.1% in 2023.[2] GDP grew in the first half of 2023, before contracting 0.1% in Q3 2023 and 0.3% in Q4 2023. However, in its March 2024 forecast the OBR expects growth to pick up to 0.8% in 2024 and 1.9% in 2025.[3] The OBR has revised up its GDP forecast for 2025 by 0.5 percentage points, reflecting lower expectations for inflation and Bank Rate as well as contributions from policies announced at Spring Budget 2024. The International Monetary Fund (IMF) is forecasting that the UK will have the third fastest cumulative growth in the G7 over the 2024-2028 period.

1.36 Following the energy price shock, driven by Putin's illegal invasion of Ukraine, inflation became increasingly domestically generated. Firms raised prices in response to higher energy costs whilst increased labour market inactivity and record levels of vacancies led to increased competition among firms for jobseekers, increasing wages. The independent Monetary Policy Committee (MPC) of the Bank of England responded to high inflation by tightening monetary policy: raising Bank Rate to 5.25%, from 0.1% in December 2021. As a result of lower import prices, the MPC's actions and the government's fiscal policy, inflation has more than halved from its peak of 11.1% in October 2022 to 4.0% in January 2024.

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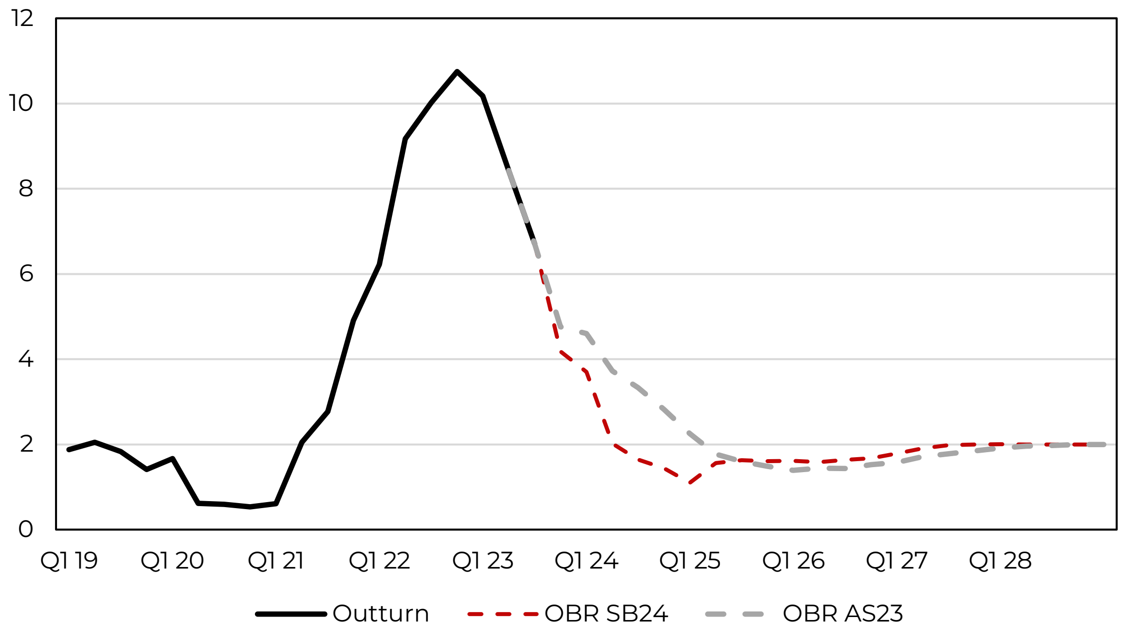
[2] Economic and fiscal outlook, Office for Budget Responsibility, November 2022.

[3] Economic and fiscal outlook, Office for Budget Responsibility, March 2024.

Chart 1.C: Consumer Price Inflation (CPI) Outturn and Forecast (%)



1.37 In recent months, inflation has fallen faster than expected since the OBR's November 2023 forecast and is now forecast to return to the 2% target in Q2 2024, around a year earlier than had previously been expected.4 Direct effects of policies at Spring Budget 2024 are expected to lower CPI inflation by 0.2 percentage points in 2023-24. The OBR expects CPI inflation to be below target during the period 2025-2027 before settling at 2.0% in 2028. The Bank of England in its most recent February Monetary Policy Report (MPR) similarly forecast that inflation will return to the 2% target in the second quarter of 2024, before rising again at the end of 2024, and returning sustainably to target towards the end of the forecast period.5

1.38 Data on the labour market has been subject to significant revision and remains subject to a high degree of uncertainty. In February 2024, the Office for National Statistics (ONS) reweighted the Labour Force Survey (LFS) to the latest population estimates to better account for demographic changes since 2011. These changes implied an upward revision to the adult population of around 700,000 in Q3 2023 and substantive revisions to recent labour market data including an upward revision to the inactivity rate and level of employment.

1.39 The unemployment rate remains low by historic standards at 3.8% in Q4 2023 and has fallen since the summer of 2023. Recruitment difficulties have eased, with the number of vacancies now 28% below the peak level reached in mid-2022. The OBR forecast the unemployment rate to average 4.4% this year and remain at that level

[4] Economic and fiscal outlook, Office for Budget Responsibility, November 2023.

[5] Monetary Policy Report, Bank of England, February 2024.

until 2026 where it falls to 4.2%, before falling back to 4.1% by the end of the forecast in 2028. Set against this, inactivity remains elevated. Inactivity due to long-term sickness remains historically high, at 2.8 million in the final quarter of 2023 and making up 30% of the inactive population and the OBR expects rising health-related inactivity to continue weighing on the participation rate.

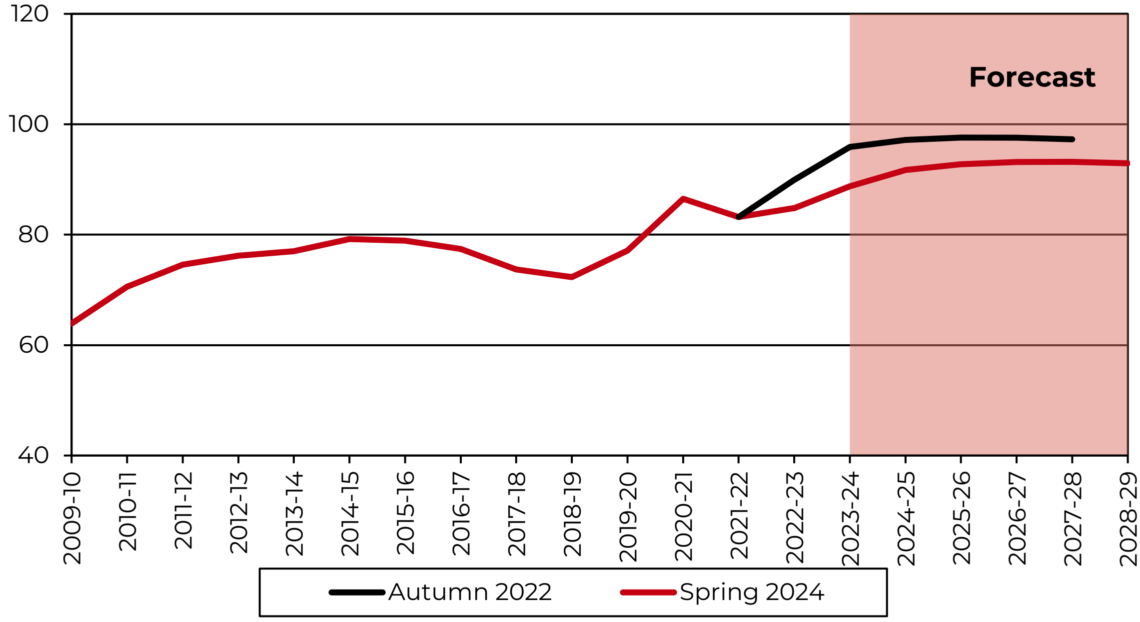
1.40 The OBR judges that total hours worked in the economy will increase by the equivalent of more than 100,000 additional full-time workers by 2028-29, as a result of tax measures in the Spring Budget package, notably the permanent cut to National Insurance Contributions (NICs) and changes to the high-income child benefit charge. The combined impact of policy measures from the past three fiscal events increases total hours worked by the equivalent of more than 300,000 full-time workers and adds 0.7% to GDP by 2028-29.

1.41 Sustainable public finances support the stability and confidence that underpin long-term economic growth. Reducing government debt will lessen the burden on future generations, provide space for the government to support households and businesses in case of future shocks, and reduce debt interest costs. This is why it is a government priority to get debt falling as a share of GDP.

1.42 The OBR has confirmed that the government is on track to meet both its debt and borrowing fiscal rules. The rules require underlying debt as a percentage of GDP to be falling and Public Sector Net Borrowing (PSNB) to not exceed 3% of GDP, both by the fifth year of the rolling forecast (2028-29 in this case).[6] Underlying debt falls in the final year with a £8.9 billion buffer ('headroom'). The borrowing rule is met with headroom of £56.8 billion in the final year, and the rule itself is achieved three years early, when borrowing falls to 2.7% of GDP in 2025-26.

[6] The Charter for Budget Responsibility, HM Treasury, January 2023.

Chart 1.D: Public sector net debt excluding the Bank of England (% of GDP)



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

1.43 PSNB is forecast to be £114.1 billion in 2023-24, down from the peak of £314.7 billion in 2020-21, during the Covid-19 pandemic.[7] This is £9.8 billion lower than in the OBR's November 2023 forecast. Borrowing is forecast to fall in every year, reaching £39.4 billion, 1.2% of GDP, by 2028-29. The current budget deficit (the difference between receipts and spending, excluding capital expenditure) is forecast to be balanced by 2027-28, at which point the government will only be borrowing for investment.

1.44 Looking at broader measures of the public sector's balance sheet, public sector net worth, the total value of the public sector's assets and liabilities, is expected to strengthen from –70.2% of GDP in 2024-25 to –63.9% of GDP in 2028-29. Public sector net financial liabilities, a measure of the financial balance sheet, is forecast to improve from a peak of 83.6% of GDP in 2024-25 to 78.7% in 2028-29. Alongside this, the government continues to demonstrate best practice in fiscal transparency by reporting those obligations that taxpayers may have to meet in the future due to policy decisions taken now, with one new significant contingent liability taken on since Autumn Statement 2023.

Fiscal risks and sustainability

1.45 The OBR's Fiscal Risks and Sustainability report (FRS), published in July 2023, noted that the UK has experienced increased global challenges in recent years. The report provides a comprehensive examination of the public finances, considering short-term fiscal risks

[7] Economic and fiscal outlook, March 2024, Office for Budget Responsibility.

alongside a longer-term outlook for the public finances. This year's FRS examined three risks to the public finances: Inactivity and Health; Energy; and Debt Sustainability. It also provided an update on other risks in the OBR's fiscal risks register.

1.46 The government responded to the report at Autumn Statement 2023, demonstrating the government's commitment to thoroughly assessing and actively mitigating fiscal risks, and to fiscal transparency. The report and response addressed the following risks:

- **Inactivity and health:** Rising inactivity has put significant pressures on the fiscal position of the UK, with health-related inactivity and in-work ill health since the onset of the pandemic leading to a reduction in tax receipts and higher welfare spending. Supporting working-age people back into work is a priority for the government. That is why at Autumn Statement 2023, the government announced a new Back to Work Plan worth over £2.5 billion to expand employment support for the long-term sick and disabled, and the long-term unemployed. These groups face some of the biggest barriers to entering the labour market, and the government is committed to helping them look for and stay in work, if they are able to do so. This builds on the comprehensive £7 billion employment package from Spring Budget 2023, which focused support on groups where inactivity levels are high or where employment support is most needed, including the long-term sick and disabled, welfare recipients, people aged over 50, and parents.

- **Energy:** High and volatile energy prices pose a risk to households, businesses and the public finances. As a net importer of gas, the UK is vulnerable to wholesale gas price changes. Transitioning to net zero is therefore critical to reducing fiscal costs and addressing the risks associated with continued exposure to gas price volatility and climate change. The UK has already met, and overachieved, against its first (2008-2012) and second (2013-2017) carbon budgets and is expected to significantly overachieve on the third (2018-2022). The government has set out detailed plans for the UK's energy transition, for example in the Net Zero Review and Net Zero Strategy, and in September 2023, the Prime Minister provided further detail on how the government will ensure the transition is undertaken in a way that limits the burdens on consumers.

- **Debt sustainability:** Structural changes to the economy caused by an ageing population, climate change and the transition to net zero are expected to put upward pressure on public spending and pose risks to the tax base over the coming decades. That is why the government is committed to getting debt falling, as sustainable public finances provide the foundations for long-term growth and reduces the burden passed onto future generations. The OBR confirmed in its March 2024 forecast that the government is on track to meet its fiscal rule to have debt falling by the end of the five year forecast period.

- **Fiscal risk register:** In common with other advanced economies, the UK has faced a series of global shocks in recent years, which the government identifies and manages through its fiscal risk management framework. This includes HM Treasury's Economic Risk Group (ERG) and Fiscal Risk Group (FRG), which are responsible for ensuring that interactions between risks to the macroeconomic outlook, financial systems, and public finances are systematically monitored and assessed in the round. In addition, the Contingent Liability Central Capability published a report alongside Autumn Statement 2023 which continues to improve the UK's balance sheet management capabilities related to contingent liabilities. To continue strengthening this risk management framework, the government is providing up to £10 million funding to finance research on risks to the economy and public finances.

Local government accountability and oversight

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

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

Oversight

1.49 DLUHC adopts a broad approach in discharging this responsibility. It looks carefully at the financial health of authorities, as well as local authority governance and service delivery. DLUHC has worked closely with organisations, such as the Chartered Institute of

Public Finance and Accountancy (CIPFA), to ensure their guidance on these matters are consistent with its approach.

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

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

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

1.52 DLUHC has taken a number of steps to improve its oversight of the local government sector that include establishing a Local Authority Governance and Accountability Framework Review Panel in September 2019, to review the Governance and Accountability Framework. Its membership is drawn from the National Audit Office, Local Government and Social Care Ombudsman, Local Government Association, Society of Local Authority Chief Executives, Centre for Public Scrutiny, Chartered Institute of Public Finance and Accountancy, and Lawyers in Local Government and the Association of Local Authority Treasurers. DLUHC also established the Office for Local Government (Oflog) in July 2023, (see below).

1.53 DLUHC has policy responsibility for the Prudential Framework comprising the legislation and statutory guidance under which local authorities borrow and invest. Authorities must restrict borrowing to what is affordable and have regard to the statutory codes issued by CIPFA and the department. In response to changes in patterns in local authority behaviour where a minority of authorities are taking excessive risk through excessive debt, over-reliance on commercial income or the pursuit of novel and risky investments, the government has taken a series of actions to strengthen the capital system. Most recently, new capital powers have been introduced through the Levelling Up Regeneration Act that allow the government to take direct action where authorities take excessive risk through borrowing and investment. These powers require further regulations to operate, and these are planned to be in place in 2024-25. However, since May 2022, the government has been engaging with high-risk authorities in advance of the powers coming into force. Notably, this has so far led to intervention in Thurrock and Woking councils. Further, changes to the statutory duty to set aside money to repay debt will be in place in 2024-25. This will further mitigate the risk of authorities borrowing excessively. These measures further safeguard the Framework and its principle of local decision making and accountability.

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

Local audit

1.55 Local audit is vital in supporting democratic accountability and providing assurance for local people and their elected representatives.

1.56 Accurate and independently audited financial information, delivered on time, enables local bodies to effectively plan, make informed decisions and manage their services. This aids transparent and accountable local democracy which engenders public confidence and trust.

1.57 The government recognises the exceptional circumstances of the current backlog. The government also recognises that important questions concerning systemic challenges must be addressed.

1.58 Since the cross-system statement on proposals to clear the backlog and embed timely audits was published in July 2023, DLUHC has worked with system partners to develop a proposal to clear the backlog.

1.59 In February, DLUHC and the National Audit Office launched consultations and, in parallel, DLUHC with key organisations in the local audit system issued a Joint Statement setting out a clear package of measures to meet these challenges. These consultations have now closed, and the government will carefully review responses and set out our intentions and response to the feedback in due course.

1.60 DLUHC's consultation proposed establishing a statutory backstop date of 30 September 2024 for the publication of audited accounts up to and including financial year 2022-2023, and a further series of backstop dates for financial years 2023-24 to 2027-28.

1.61 The Joint Statement outlines that the wider package of measures consists of three stages:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022-23 by 30 September 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

1.62 In addition to the above, CIPFA/LASAAC Local Authority Code Board have recently launched a consultation on short term England-only measures in the Code of Practice on Local Authority Accounting in the United Kingdom. The proposals are to aid the recovery of local authority reporting and audit as set out in the Joint Statement.

1.63 We accept that the proposals are likely to result in a number of disclaimer of opinions and qualified opinions being issued where an audit has not been completed by the backstop date. However, the aim of the proposals is to enable local bodies and audit firms to focus on the most recent year of accounts as quickly as possible. Phase 2 of our proposed reforms, as outlined above, includes backstop dates in five subsequent years, so that assurance can be gradually rebuilt, and the system gradually reset.

1.64 Growing capacity in the local audit market is also a priority. As part of this work:

- The FRC is leading on a workforce strategy to boost the capacity and capability of auditors in the sector, with CIPFA and the LGA examining how to strengthen finance teams also. These initiatives will help reduce the likelihood of the backlog returning.
- DLUHC has been leading work on a new local audit qualification. Following a successful procurement exercise, CIPFA has been contracted to develop and roll out a qualification designed to bridge the gap between the corporate and local audit qualifications, thereby widening the pool of auditors. CIPFA has designed a course to support the qualification; a pilot cohort was enrolled in early 2024, which is expected to sit the new qualification by the summer.

Office for Local Government (Oflog)

1.65 To better understand local government performance, DLUHC has established the Office for Local Government (Oflog). Oflog aims to provide authoritative and accessible data and analysis about the performance of local government and support its improvement. By doing so, Oflog will improve the accountability for performance across the local government sector.

1.66 While the government remains committed to a localist approach to monitoring and managing local government performance, over recent years it has become clear the sector-led system needs some strengthening. Oflog’s aims are in three domains: inform, warn, and support.

- **Inform**. Oflog will enable citizens, local government, central government, and civil society to be better informed about the performance of local authorities. Oflog's initial action on this front is the Local Authority Data Explorer, an online tool that presents standardised, accessible metrics on local authority performance to enable comparison between authorities.
- **Warn**. There is a key role for Oflog to play in better understanding what the early warnings signs of failure in local authorities are, and

how it can enable more effective prevention. Oflog is also developing an early warning system made up of two integrated parts:

  - A new internal desk-based early warning system (using quantitative data and soft intelligence) to identify councils and combined authorities potentially at risk of developing serious problems of leadership, governance, or culture.
  - A set of 'early warning conversations' with some councils and combined authorities identified as potentially at-risk, to establish the type and degree of risk, and make recommendations for improvement. Oflog plans for the first of these conversations to take place in 2024.

- **Support**. Oflog will, over time, identify, celebrate, and propagate good practice by local authorities, and provide expert support to help them use data to improve performance.

1.67 DLUHC Ministers appointed an independent Chair, Lord Morse, at an early stage of its development to provide independent advice, support, and challenge to its strategic vision, functions, and delivery priorities. To help establish Oflog rapidly it has been set up initially as an office of DLUHC, which means Ministers retain accountability for the organisation and allows the Department to guide and support its early development. As Oflog matures, DLUHC will continue to ensure it has the right degree of separation from government to deliver its objectives.

Local government in WGA

1.68 Delays to the audit of local authority accounts have meant fewer local authorities were able to submit their final WGA returns based on those accounts on a timely basis. WGA 2021-22 consolidates the results of 347 local authorities, of which 148 provided final data and 199 submitted draft data. 157 local authorities did not submit data to WGA 2021-22. The impact of missing data from these local authorities and other bodies is considered in more detail from paragraph 1.6 of this performance report and in Note 1.3 to the accounts. However, the overall level of data collected across the UK public sector remains high.

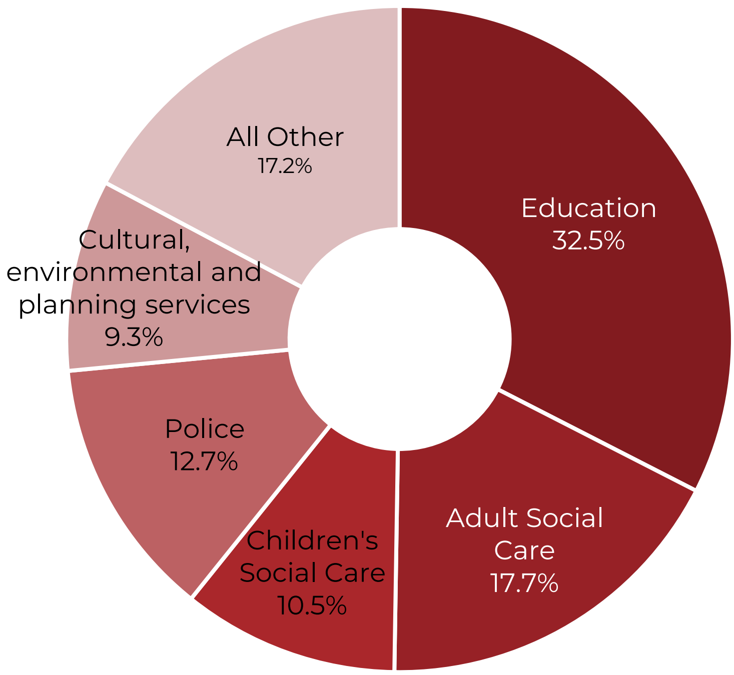
1.69 A further 12 local authorities were not required to submit returns and excluded from the consolidation on the basis that, as minor bodies, they are too small to have any material impact on WGA. See Note 2.1 for more details on the impact of excluding minor bodies. A full list of minor bodies is provided in Annex 3.

1.70 Delays to the audit of local authority accounts are expected to continue to impact WGA for 2022-23 and subsequent years.

Local government finances

1.71 Note 3 to WGA presents segmental reporting which shows the local government contribution to key figures in WGA. Further detail on expenditure by local authorities in England during 2021-22 and the sources of financing for that expenditure can be found in the DLUHC statistical release Local Authority Revenue Expenditure and Financing: 2021-22 Final Outturn, England[8], which shows Total Service Expenditure of £107.1 billion in 2021-22. This is prepared on a statistical basis and shown net of related income, so is not directly comparable with WGA.

Chart 1.E: Proportion of budgeted service expenditure by service, England, 2021-22



Source: DLUHC

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

1.73 The Total Service Expenditure excluding Education Services shown in the statistical release was £72.2 billion in 2021-22. This represents a 3.1% decrease relative to 2020-21 when adjusted for inflation, or a 0.9% increase in cash terms.

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

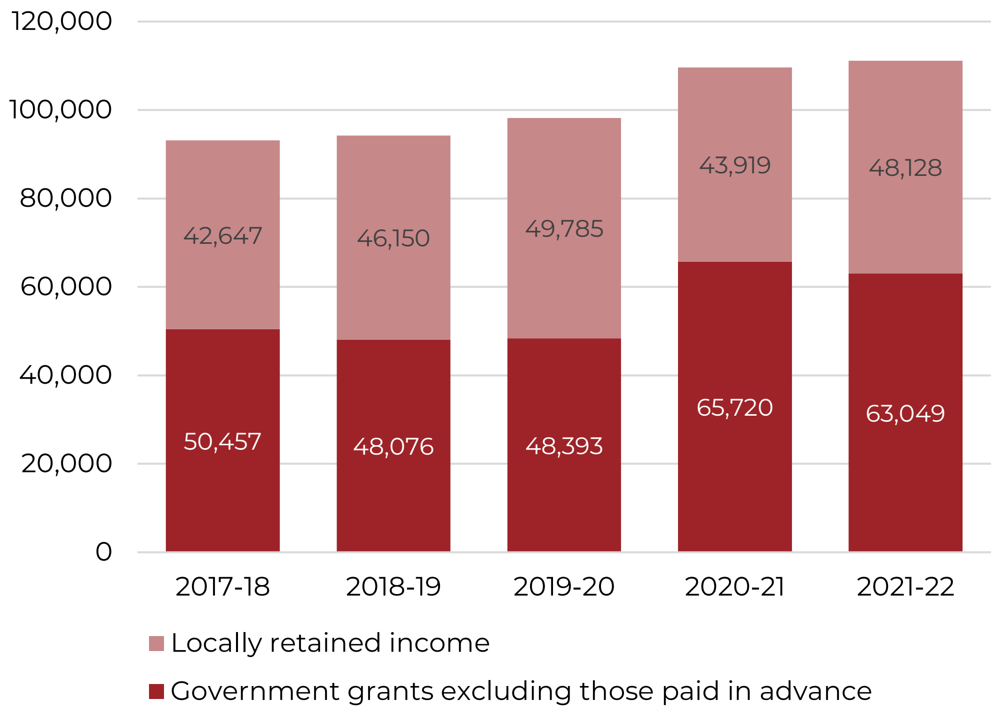
- Education, up by £1.4 billion (+4.3%) from 2020-21 to £34.8 billion in 2021-22;
- Social care, up by £1.0 billion (+3.5%) from 2020-21 to £30.3 billion in 2021-22; and

[8] Local authority revenue expenditure and financing England: 2021 to 2022 final outturn (publishing.service.gov.uk)

- Children's social care, up by £0.8 billion (+7.4%) from 2020-21 to £11.3 billion in 2021-22.

1.75 The broader measure of local authority revenue expenditure (other current expenditure in addition to service expenditure and non-current expenditure) calculated by DLUHC totalled £111.2 billion across all local authorities in England in 2021-22. This was 1.4% higher in cash terms than in 2020-21, and 0.9% lower than 2020-21 when adjusted for inflation. Figure 1.F shows how revenue expenditure was financed over the five years to 2021-22, with the share financed by central government grants reducing over this period:

Chart 1.F: Financing of revenue expenditure, England, since 2017-18



Source: DLUHC

The role of WGA in financial reporting and management

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

Annual planning

OBR publications

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

Supply Estimates

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

In-year reporting

Internal management accounts

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

Public Sector Finances

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

Outturn reporting

Individual entity accounts

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

Public Expenditure Statistical Analysis (PESA)

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

Whole of Government Accounts

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

Balance Sheet Management

1.77 Having solid foundations of financial information provided by WGA has enabled government to go further in its work to improve balance sheet management of its assets and liabilities. As a result, alongside this publication, HM Treasury will shortly be publishing the 2024 Balance Sheet Report.

1.78 The 2024 Balance Sheet Report (BSR) provides a strategic overview of the UK public sector's balance sheet in an innovative new way. It focuses on significant assets and liabilities on the WGA balance sheet in terms of their purpose (e.g. health and education) and provides insights into the size and state of these portfolios and how they are managed. The 2024 BSR, continuing on from the landmark 2020 Balance Sheet Review[9], further demonstrates the government's commitment to improving balance sheet management, and enables better stewardship of these assets and liabilities.

1.79 The WGA and the 2024 BSR provide a comprehensive picture of the UK's public sector finances and how they are managed, supporting government transparency and informing more effective management of fiscal risks and sustainability. They indicate the growing improvement over time in financial information for decision making. The WGA provides an extensive view of the government's balance sheet, which is complimented by other measures that look at broader public sector assets and liabilities. As part of the government's commitment to the broadest view of fiscal sustainability, the Autumn 2022 update to the Charter for Budget Responsibility[10] retained an aim to "strengthen over time a range of measures of the public sector balance sheet such as public sector net debt, public sector net financial liabilities and public sector net worth through effective management of assets, liabilities and risks." This continues to ensure the strength of the balance sheet is considered in fiscal decision making. This broader view of government's assets and liabilities helps to maximise taxpayer value, ensuring that government looks to get returns from assets and minimise liabilities that can fall outside narrow fiscal definitions. For example:

- The Government Office of Technology Transfer (GOTT) was formed in 2022 to support the UK public sector to unlock the potential of its knowledge assets to deliver value to the UK economy and society. Knowledge Assets (KAs) include intangible assets such as research and development, intellectual property (IP), data and know how. Some KAs are not included in the government's balance sheet as they do not meet the recognition requirements of the accounting

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9 The Balance Sheet Review Report: Improving public sector balance sheet management (www.gov.uk)

10 https://assets.publishing.service.gov.uk/media/63d15c6cd3bf7f3c4900f11a/Charter_for_Budget_Responsibility_-_AS22_-_FINAL_as_published_in_draft.pdf

standards, but are valuable public assets, critical to the effective delivery of public services. GOTT continues to provide guidance to public sector bodies,[11] as well as practical support and grant funding for specific opportunities[12]. Its Knowledge Assets Grant Fund runs bi-annual calls for funding proposals which in January 2024 prioritised proposals for the use and development of Artificial Intelligence technologies in areas which have not been considered before in the public sector.

- On the liabilities side of the balance sheet, most liabilities are not funded in advance by holding assets which is consistent with the general principle against funding in advance of need. There are some exceptions, such as funded pension schemes and state-backed reinsurers like Flood Re. In October 2023, the Treasury published new guidance to clarify the government's policy regarding holding funds to meet specific liabilities.[13] This is to ensure future liabilities are met in the most financially efficient way.

1.80 The government continues to develop the management of contingent liabilities, guarantees and insurance to reduce fiscal risk. HM Treasury's Contingent Liability Approval Framework was updated in April 2023, strengthening the management of contingent liability risk in government. The Contingent Liability Central Capability (CLCC) provide expert capability and can help departments quantify risk, as well as set up appropriate risk mitigation and charging arrangements. The CLCC published the 'Annual Report on the UK Government's Contingent Liabilities' in November 2023, setting out a portfolio view of the government's contingent liability exposure and providing additional context to any reporting on the flow of new liabilities.[14] The report provides government with invaluable information to enhance and inform policy design and lifetime management of contingent liabilities.

1.81 For the purposes of the balance sheet, most liabilities are not funded in advance by holding assets, which is consistent with the general principle against funding in advance of need. There are some exceptions, such as funded pension schemes and state-backed reinsurers like Pool Re. In October 2023, the Treasury published new guidance to clarify the government's policy regarding holding funds to meet specific liabilities.[15] This is to ensure future liabilities are met in the most financially efficient way.

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[11] 'The Rose Book: Guidance on knowledge asset management in government'

[12] Get funding to develop and exploit knowledge assets (www.gov.uk)

[13] https://assets.publishing.service.gov.uk/media/65325442e839fd000d86728d/DAO05-23_Letter_-_Govt_Funds_to_Meet_Specific_Liabilities.pd

[14] CLCC's Annual Report on the UK Government's Contingent Liabilities - UK Government Investments (UKGI)

[15] https://assets.publishing.service.gov.uk/media/65325442e839fd000d86728d/DAO05-23_Letter_-_Govt_Funds_to_Meet_Specific_Liabilities.pdf

Significant matters of interest

Covid-19

1.82 The 2021-22 accounts in the WGA were affected by the Covid-19 pandemic, which impacted on economic activity, government revenues and government expenditure.

1.83 This section outlines the impact of Covid-19 up to June 2023 and also considers the impact on 2021-22 accounts for departments particularly affected.

1.84 Throughout its response to Covid-19, the government sought to protect people's jobs and livelihoods while also supporting businesses and public services across the UK as per the IMF's 'Policy responses to Covid-19'[16]. Various measures were implemented to facilitate this. Additional funding for the NHS, public services and charities totalled £48.5 billion throughout the pandemic. Support for businesses was provided through various measures, including property tax holidays, direct grants and compensation for sick pay leave. These measures cost the government £29 billion. A further £8 billion was used to boost welfare through increased universal credit payments amongst other benefit increases.

Covid-19 Cost Tracker

1.85 HM Treasury have taken ownership of the Covid-19 cost tracker since the June 2023 update. The report was previously produced by the NAO. A further cost tracker will be published in 2024 with updated figures.

1.86 The tracker brings together data from across the UK government. It provides estimates of the costs of measures announced in response to the Covid-19 pandemic and allows the user to explore the full dataset in several different ways. The latest release of this cost tracker was published in June 2023 and includes measures announced between February 2020 and April 2023.

1.87 HMT's Covid-19 cost tracker shows a total estimated lifetime cost of £189 billion as at July 2023 for measures that were active as of June 2022, and an estimated lifetime cost for measures both active and complete of £373.3 billion. This represents a fall of £2.7 billion since the previous publication of the NAO Covid-19 cost tracker, with changes laid out in the following table:

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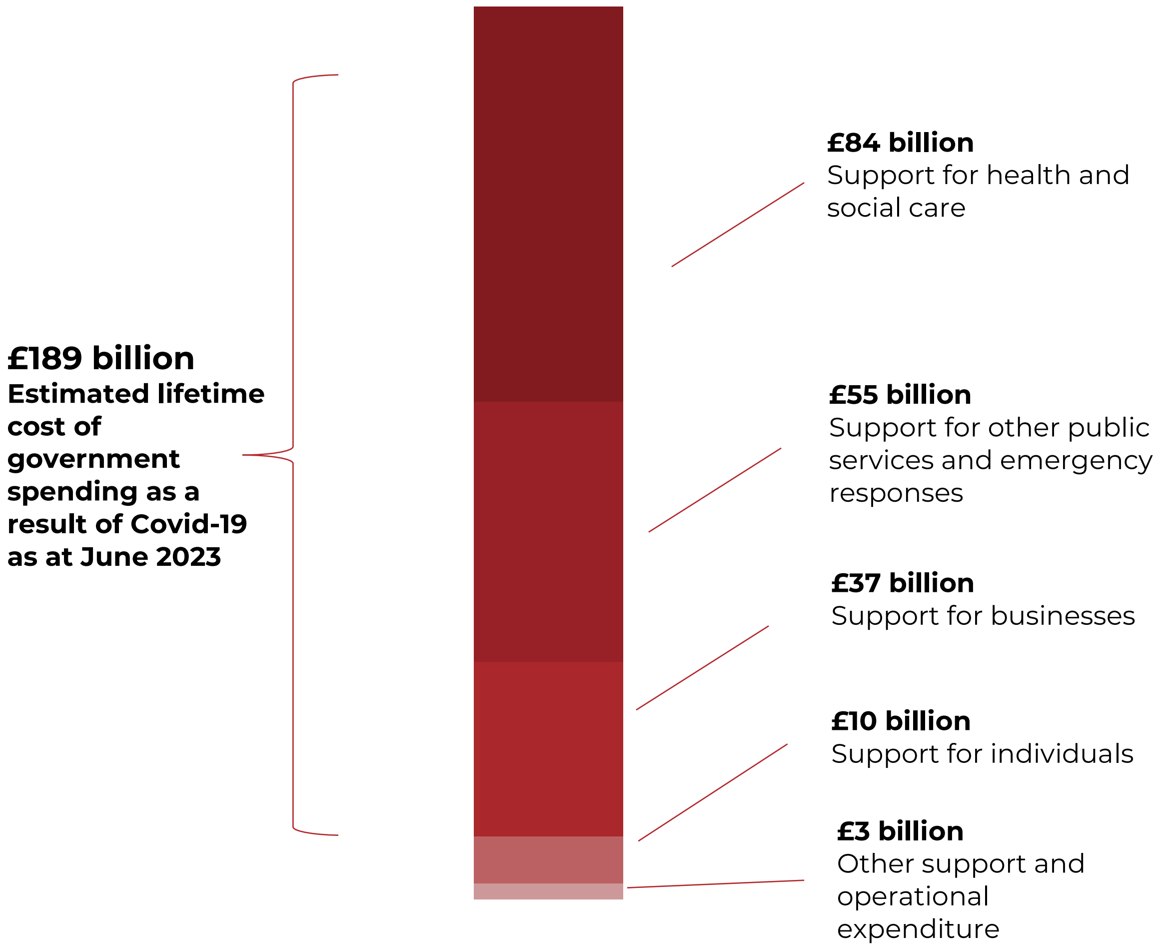
16 Policy Responses to COVID19 (imf.org)

Estimated Lifetime Cost	Value £bn
Closing Balance June 2022	**376.0**
Reclassification of rail emergency measures	-3.0
Expected losses from VAT referral scheme	-1.3
Expected costs of Covid-19 additional relief fund	-0.3
Additional measure - NHS spending review 2021 Covid-19 recovery funding	6.1
Other	-4.2
Closing Balance July 2023	**373.3**

1.88 The tracker differs from the previous version, produced by NAO, based on two key factors. Firstly, the range of dates for inclusion in the trackers differs; the NAO tracker captures measures between February 2020 and March 2022, whilst HMT's includes an additional year to March 2023. Secondly, NAO's captures measures both complete and ongoing as of March 2022, whilst HMT's solely includes measures that were still active in the NAO version and as such, excludes measures that were complete as of March.

Chart 1.G: Covid- 19 Cost Tracker



Approximately **£92.58 billion** of this total has been loaned or guaranteed by the Bank of England (where data are available)

Approximately **£358 billion** of this total has been spent by June 2023 (where data are available)

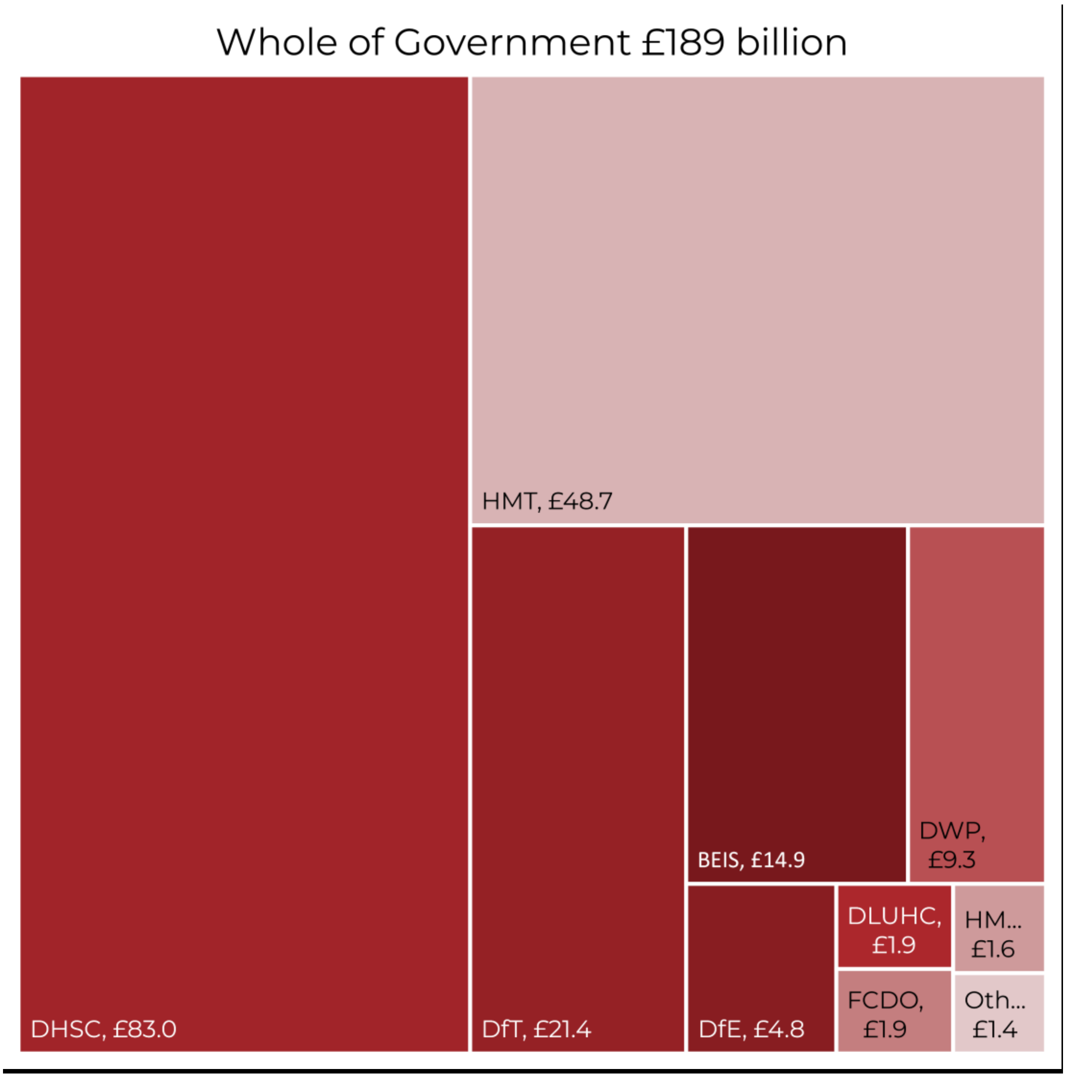
Source: HMT Covid-19 cost tracker

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

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

1.91 The total estimated lifetime cost of active or complete measures is £373 billion. The estimated cost of measures still active as of June 2022 is £189 billion. The table above provides a breakdown of the active measures.

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



Source: HMT Covid-19 cost tracker dataset

Limitations of the HMT and NAO Covid-19 cost trackers

HM Treasury note that their Covid-19 cost tracker data has limitations which include:

Verifying the data: The data included in this publication has not been audited but HM Treasury has worked closely with departments to ensure that all data provided is accurate.

Completeness: Not all departments were able to provide all the information requested. For example, following the pivot to the government's living with Covid-19 strategy, some departments do not distinguish between Covid-19 spending and business as usual spend, due to the removal of the Covid-19 specific ringfence within budgets. Where possible, departments have provided cost and spend data in line with their Spending Review settlements.

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

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

Comparisons with government publications: When comparing any data included within this publication, costs within this publication may differ from other publications because:

- this tracker includes some measures funded through departments' own resources;
- The tracker excludes funds set aside for the Covid-19 response in the Covid-19 Reserve; and
- There are timing differences between producing the cost estimates for each publication.

Similar limitations applied to the previous Covid-19 cost tracker published by NAO.

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

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

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

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

1.94 The core Department has spent:

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

1.95 Key Covid-19 performance metrics:

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

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

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

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

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

1.99 The Department's 2021-22 achievements include:

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

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

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

Covid-19 spotlight on: HM Revenue & Customs

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

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

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

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

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

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

	Expenditure £bn
Protect and Vaccine	0.03
Homelessness Prevention Grant Top Up	0.07
Community Champions/Covid-19 Additional Relief Fund/Covid Enforcement and Compliance	0.02
Reopening High Streets Safely	0.03
Covid Local Council Tax Support	0.7
Covid 20-21 Tax Income Guarantee Scheme	0.1
Expanded Retail Discount	0.8
Covid-19 Expenditure Support	5.8
Covid-19 Additional Relief Fund	1.6
Sales, Fees and Charges	1.5
Local Government Total	0.3
Total	**10.95**

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

- **Housing:** The Department has set out a mission to halve the number of non-decent rented homes by 2030, with the biggest improvements in the lowest performing areas.

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

Covid-19 in WGA 2021-22

1.105 The effects of Covid-19 are reflected in a number of places in WGA 2021-22.

1.106 The areas particularly affected include:

- Taxation revenue (note 4), following the deferral of tax payments in 2020-21.
- Staff costs (note 7) due to increased numbers of staff employed in the NHS.
- Purchase of goods and services (note 8), particularly the supply of ventilators and Personal Protective Equipment to support the pandemic response, donations of vaccines and NHS Test and Trace consumables.
- Other financial assets (note 16), particularly due to increased uptake of the Term Funding for SMEs scheme.
- Other financial liabilities (note 21), due to guarantees issued relating to the Bounce Back Loans Scheme, Coronavirus Business Interruption Loan Scheme, Recovery Loan Scheme and Coronavirus Large Business Interruption Loan Scheme.

Transactions and balances with the EU

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

1.108 A fuller explanation of the relationship is set out in Annex E of the European Union Finances: statement on the EU Budget and measures to counter fraud and financial mismanagement.[17]

1.109 Transactions, balances and commitments between the UK public sector and the EU are recognised in a number of places in WGA 2021-22:

Nature of balance	Note	Value (£bn)	Consists of
Grant expense	9	1.2	EU grants and subsidies paid by the UK on behalf of the EU
Income	5	1.9	Income from the EU to reimburse grants and subsidies
Trade and other receivables	15	2.1	UK's interest in the European Investment Bank (EIB)
Trade and other receivables	15	2.5	Receivable relating to the EU Financial Settlement
Provisions	22	31.1	Provision for pre-2020 EU budget commitments
Contingent liabilities	29 & 30	30.7	Commitments to the EIB, and loans to EU member states and third countries that are ultimately backed by the EU budget
Contingent assets	29	1.5	Fines imposed on companies found in breach of EU antitrust rules

1.110 The income from the EU includes income received by the Department for Environment, Food and Rural Affairs (DEFRA) to reimburse them for grants and subsidies paid. The grants and subsidies paid by the UK on behalf of the EU are largely made up of £0.6 billion of grant payments made by Ministry of Housing, Communities and Local Government, £0.5 billion by DEFRA and £0.3 each for both Welsh Government and DWP. The grants and reimbursements are reported separately to ensure transparency of the flow of funds.

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

1.111 Under the Withdrawal Agreement the UK's paid in capital in the EIB of €2.9 billion will be repaid to the UK and is recognised as a receivable.

1.112 The provisions relate to outstanding EU Budgetary commitments (the so-called RAL) at the end of 2020, and EU pension obligations and rights to other employment-related benefits at the same date. These provisions represent payments and receipts to be recognised several years into the future. More information on these can be found in Note 22 to this WGA and in Note 17 of HM Treasury's 2021-22 accounts.

1.113 The contingent liabilities represent a commitment of the UK government should it be needed, so no liability is recognised on the balance sheet. In addition, these are considered remote contingent liabilities, meaning they are considered to have a very low chance of crystallising. The government's commitment for callable capital under the EIB is £30.7 billion (£30.7 billion in 2020-21. More information on this can be found in Notes 29) to this WGA, and in Note 17 of HM Treasury's 2021-22 accounts.

The financial settlement

1.114 The UK left the European Union on 31 January 2020. HM Treasury continues to implement the financial settlement, as set out in the financial provisions of the Withdrawal Agreement. This represents a settlement of the UK's financial commitments to the EU and the EU's financial commitments to the UK, which result from the UK's participation in the EU budget, and other commitments relating to our former EU membership.

1.115 The Withdrawal Agreement[18] sets out the financial settlement that was reached on the UK's financial rights and obligations as a departing Member State.

Spending on EU Exit preparations

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

1.117 HM Treasury has provided additional funding to departments and the devolved administrations to prepare for and then deliver the UK's departure from the EU, the following transition period and

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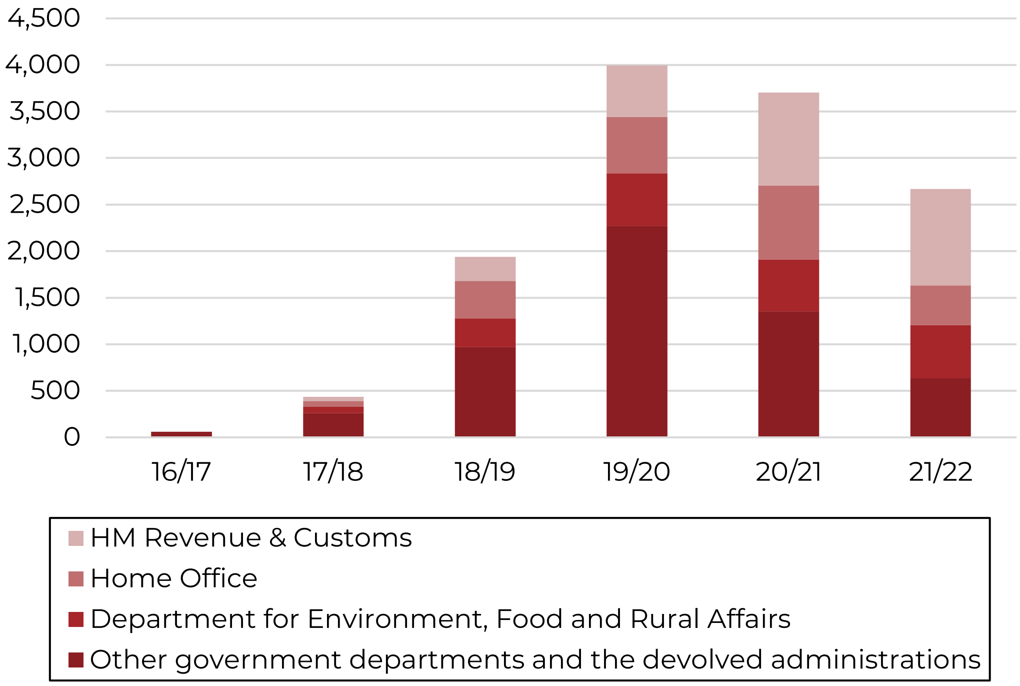
18 https://www.gov.uk/government/publications/agreement-on-the-withdrawal-of-the-united-kingdom-of-great-britain-and-northern-ireland-from-the-european-union-and-the-european-atomic-energy-communi

subsequently the costs of the post-transition period. In total over £12 billion of additional funding has been made available by the government for this purpose since 2016.

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



Source: EU Finances Statement 2020

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

What does WGA not include in respect of EU exit

WGA does not include:

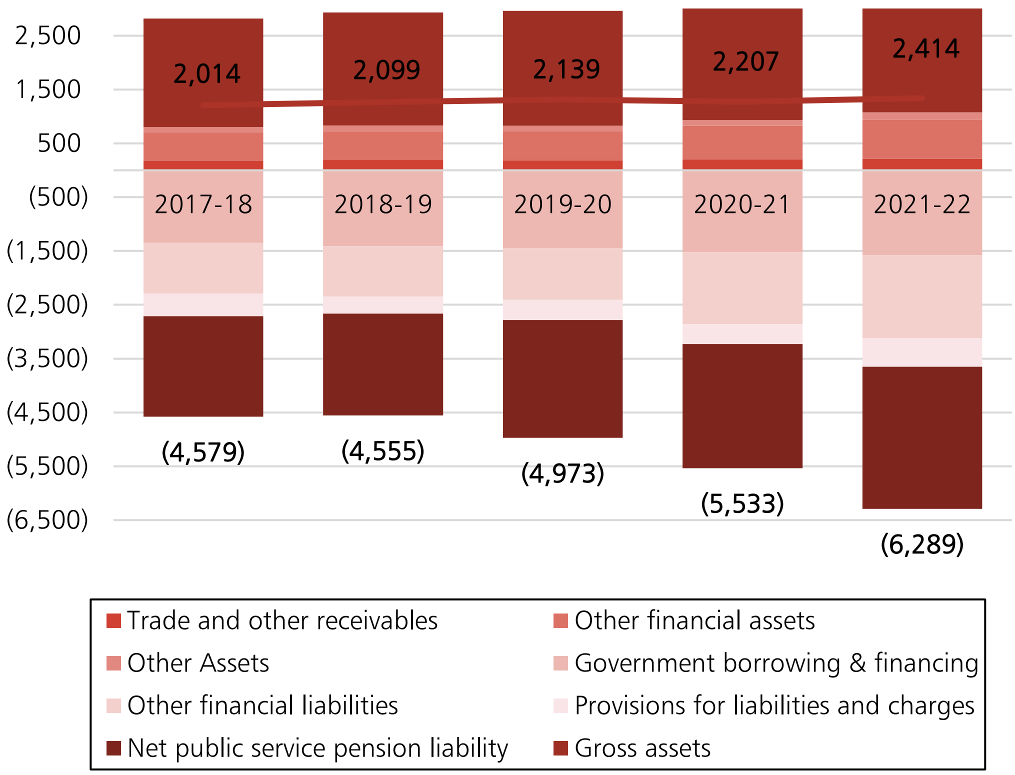
- liabilities relating to policy or legislative effects on the wider economy, if these effects do not meet the criteria set out in the accounting standards
- transactions between entities not covered by WGA (for example private companies) and the EU
- the effect of EU exit on the economy; in addition,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

Report on Assets and Liabilities

Statement of Financial Position

1.119 The purpose of the Statement of Financial Position, also known as a balance sheet, is to show the financial status of an entity at a specific point in time. In WGA, the Statement of Financial Position shows what the UK public sector owns (its assets) and how much it owes (its liabilities). This information is more valuable when several consecutive periods are grouped together, so that trends in the different items can be viewed. A reduction in the amount of data collected for 2020-21 and 2021-22 has reduced the comparability of figures for this year, which affects some areas of the accounts more than others. However, the overall proportion of data collected remains high. See above from paragraph 1.6 for further details.

Chart 1.J: Assets and liabilities of the UK over time (£ billion)



1.120 In the chart above, we can see the liability part of the balance sheet increasing at a faster rate than the assets. In the last five years, a significant factor for the increase in liabilities has been changes in discount rates used to calculate major liabilities such as net public service pension liability and provisions. The key movements between 2020-21 and 2021-22 are an increase in loans and deposits within the other assets category, due to continuing uptake of the Term Funding for SMEs (TFSME) scheme, and increases to the public sector pension and provisions liabilities due to discount rate movements. The following sections explore the most significant assets and liabilities, including these key movements, and the underlying income and expenditure in 2021-22.

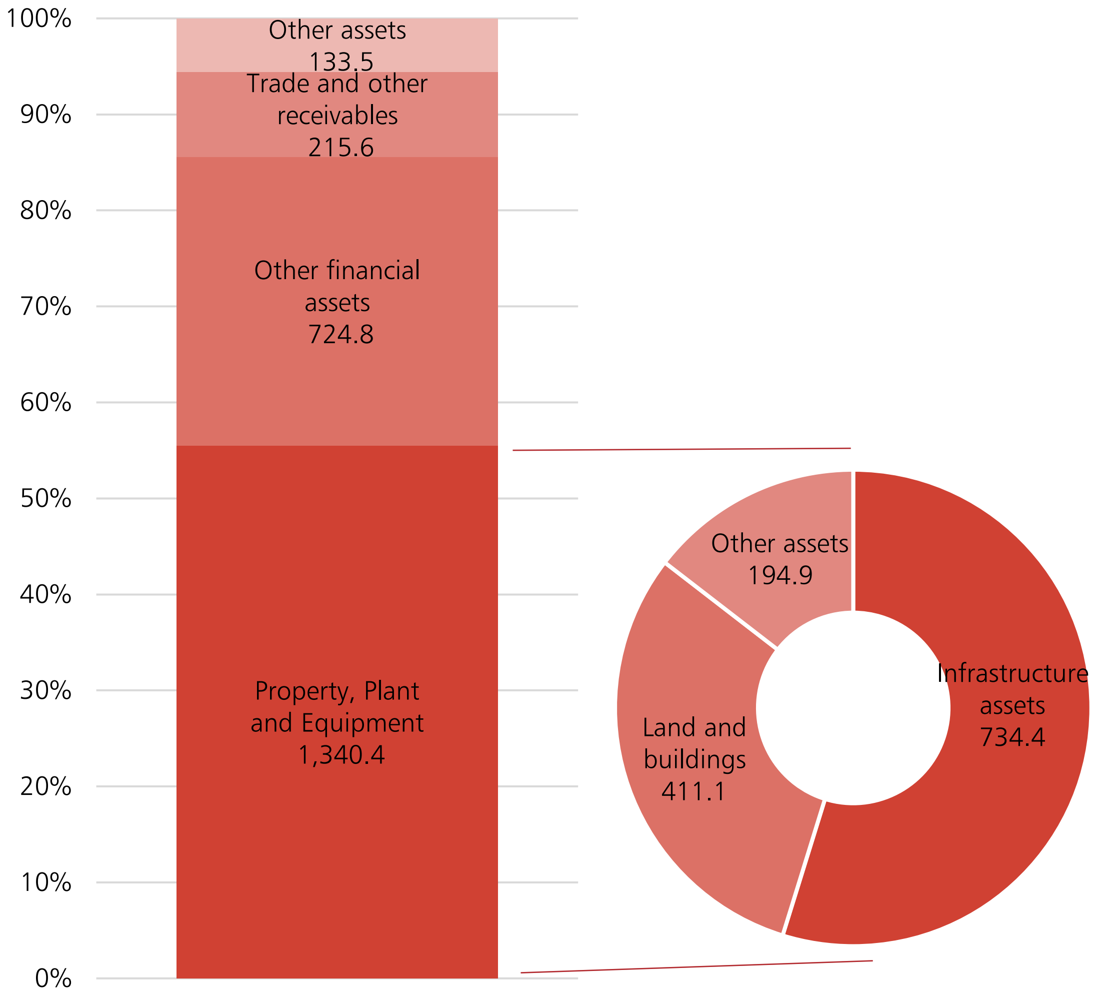
1.121 WGA consistently shows a net liability position for the UK public sector, due to the way tax revenue is accounted for. Future payments such as public service pensions are recognised as liabilities in WGA. However, a corresponding asset is not recognised for future tax revenue, as the future taxable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

Assets

Total Assets £2,414.3 billion

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

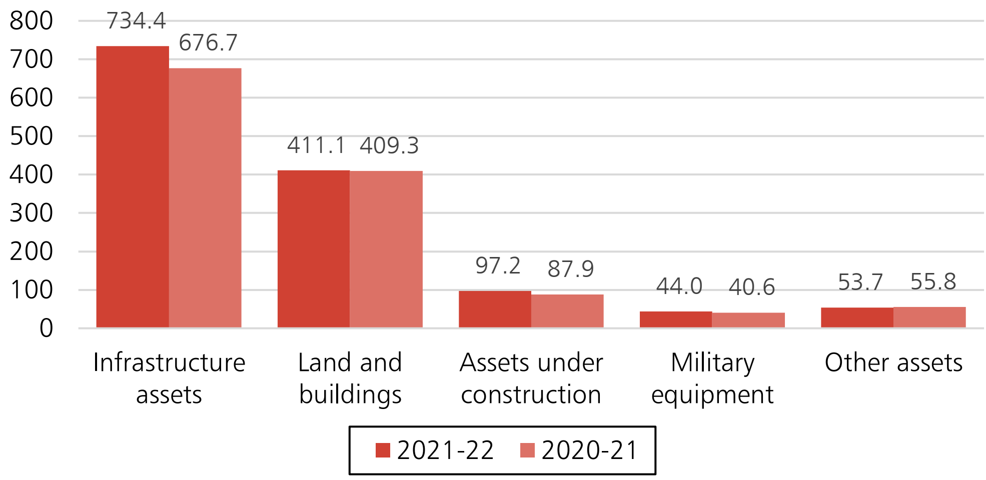
Chart 1.K: Breakdown of assets (£ billion)



1.123 The most significant assets owned by the public sector are property, plant and equipment (PPE) (which includes land and buildings, infrastructure and military equipment), financial assets and trade receivables. 56% of Assets is PPE, 55% of which is infrastructure. The largest contributor to the public sector's infrastructure is the Rail Network valued at £365.5 billion (2020-21 £336.8 billion). Included in other assets are intangible assets of £43.7 billion (2020-21: £41.0 billion). Intangible assets are measured in accordance with the accounting standards. There is a broader definition of intangible assets which encompasses knowledge, techniques and know how, which supports broader consideration of public value. These are sometimes referred to as knowledge assets. As they do not meet the recognition requirements of the accounting standards they are not captured in WGA.

Property, Plant and Equipment £1,340.4 billion

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



1.124 Overall, the value of property, plant and equipment reported in WGA increased by £70.1 billion or 5.5% in 2021-22. The most significant components of the property, plant and equipment total are infrastructure assets and land and buildings. Further detail follows on each of these balances.

Infrastructure Assets £734.4 billion

1.125 Infrastructure assets increased by £57.7 billion (8.5%) compared to the prior year. A breakdown of public sector infrastructure assets by type is shown in the table below.

Chart 1.M: Breakdown of infrastructure assets

	2021-22 £bn	2020-21 £bn
Held by		
Network Rail	365.5	336.8
Highways England	146.0	134.6
Scottish Water	68.7	64.8
Northern Ireland Department for Infrastructure	31.2	28.5
Scottish Government Strategic Road Network	23.0	20.8
Welsh Government	21.1	19.8
Other	14.6	7.6
Total central government and public corporations	**670.1**	**612.9**
Transport for London	21.2	19.1
Highways Infrastructure and other local government assets	43.1	44.7
Total local government	**64.3**	**63.8**
Total infrastructure assets	**734.4**	**676.7**

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

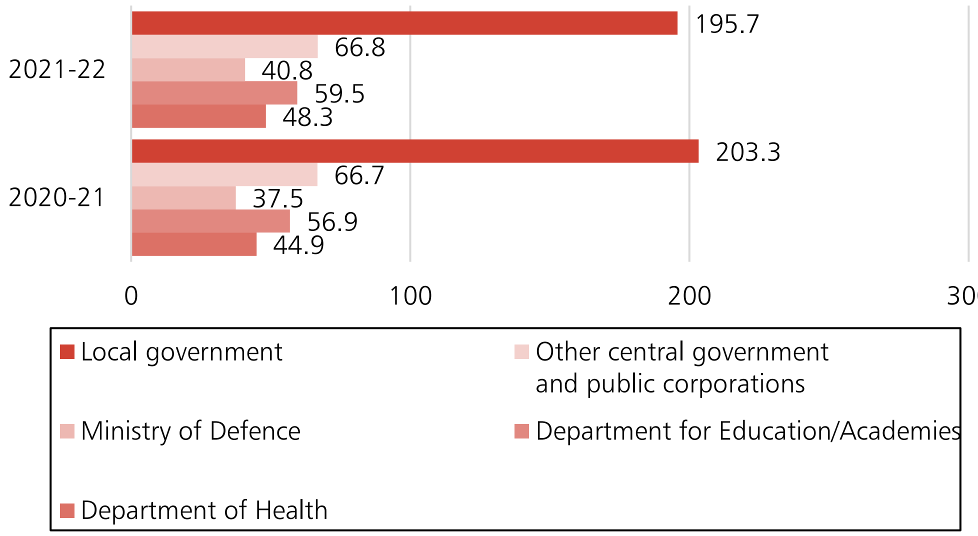
1.127 Central government values their infrastructure assets at depreciated replacement costs. Local government values their assets (of which highways infrastructure is the most significant) based on historical cost. WGA has an audit qualification as a result of these inconsistent accounting policies.

1.128 The carrying value of the local authority networked assets is £64.3 billion (2020-21: £63.8 billion). This compares to the ONS estimate for the depreciated replacement cost of these networked assets of £159.0 billion as at 31 December 2021 (2020: £149.9 billion). Infrastructure assets shown in WGA are therefore likely to be understated by at least £94.7 billion. See Note 2.4 to the accounts for further detail.

Land and buildings £411.1 billion

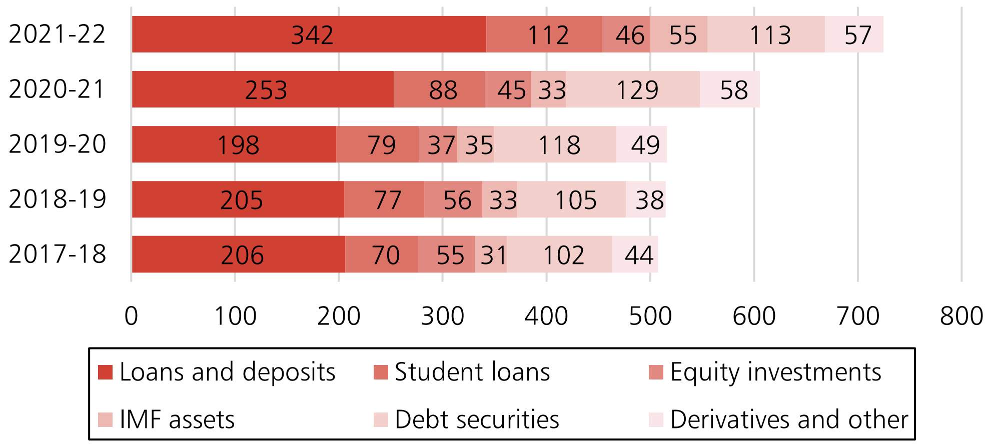
1.129 The value of land, buildings and dwellings reported in WGA increased by £1.8 billion or 0.4% in 2021-22. The small overall increase consists of a decrease due to the impact of entities which contributed to the 2020-21 total but which did not submit data to WGA in 2021-22, set against increases from indexation adjustments and reclassifications.

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



Other financial assets £724.8 billion

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



1.130 The UK public sector holds a range of financial assets. Some are held as part of the government's normal operations to manage cash and foreign exchange risks. Others were acquired to support specific policy objectives. The largest balance in loans and deposits is Term Funding Scheme for SME loans, held by the Bank of England (£192.4 billion). The largest balance in debt securities is held by the Exchange Equalisation Account (£73.9 billion). The largest student loan balance is held by the Department for Education (£97.9 billion). Further details on these significant balances are included below.

Term Funding Scheme for SMEs loans £192.4 billion

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

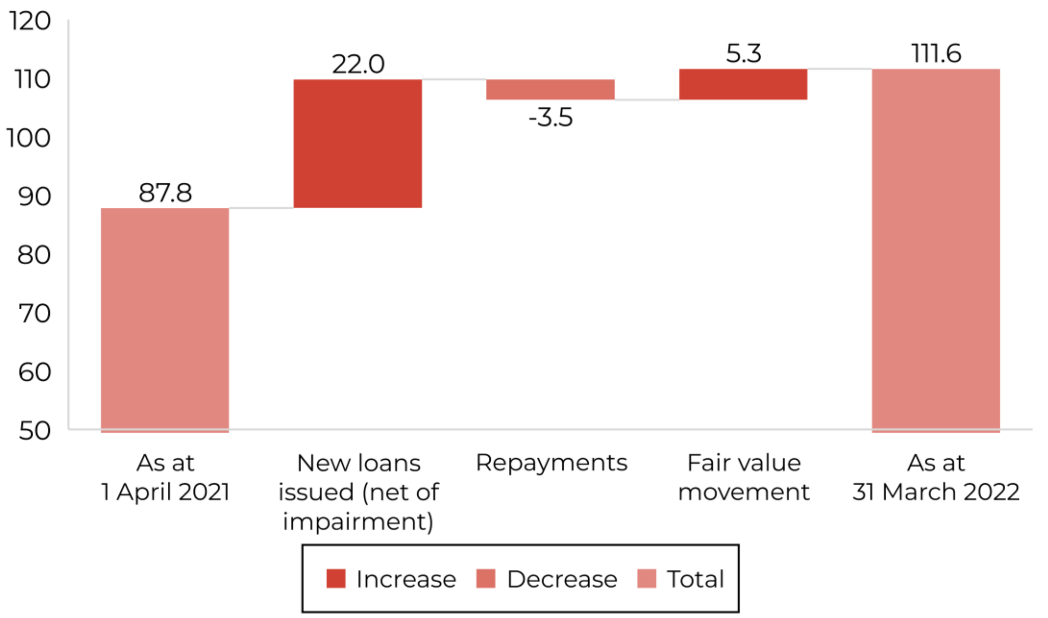
1.132 More information about TFSME loans can be found in the Bank of England's annual report and accounts, and in other documents on their website.

Exchange Equalisation Account – Debt Securities £73.9 billion

1.133 Foreign currency reserves are held by the Exchange Equalisation Account on a precautionary basis in the event of any unexpected shocks, or if required to meet any future change in exchange rate policy.

Student loans: £111.6 billion

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



1.134 The student loan portfolio continues to expand. The face value of outstanding student loans in England is forecast to reach £384.0 billion by March 2072[19]. Repayment rates vary by loan type, but the average of the government's long-term estimates is that around 50% of the value of loans issued in 2021-22 will be repaid.

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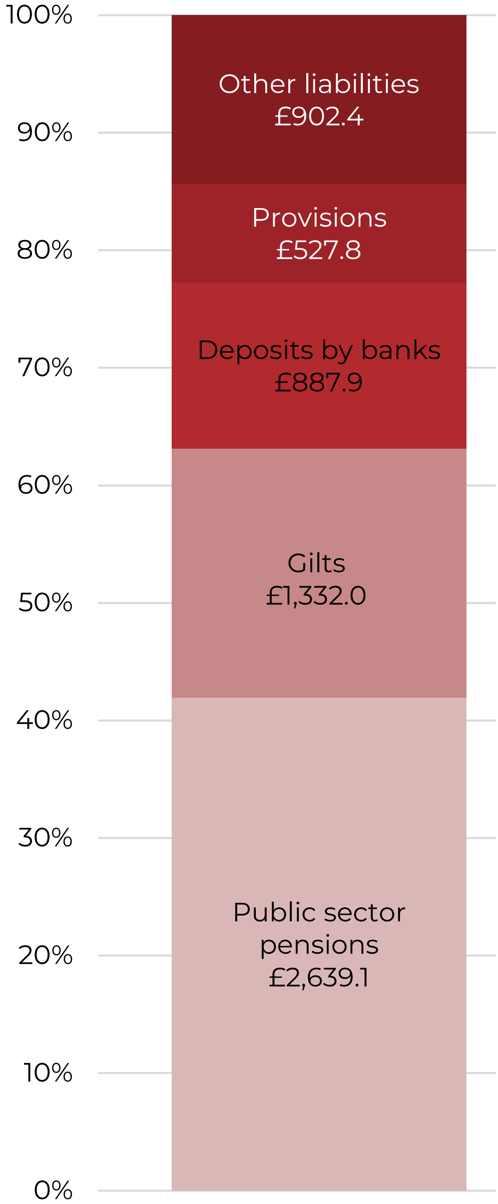
19 Student loan forecasts for England, Financial year 2022-23 - Explore education statistics - GOV.UK (explore-education-statistics.service.gov.uk)

Liabilities

Total liabilities £6,289.2 billion

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

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



Other liabilities are summarised in paragraph 1.136 below.

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

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

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

Gilts are the main form of government borrowing. This will drive the government's need to access the bond market to fund borrowing. At the end of 2021-22, the main bulk of gilts are due for redemption before 2050.

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

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

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

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

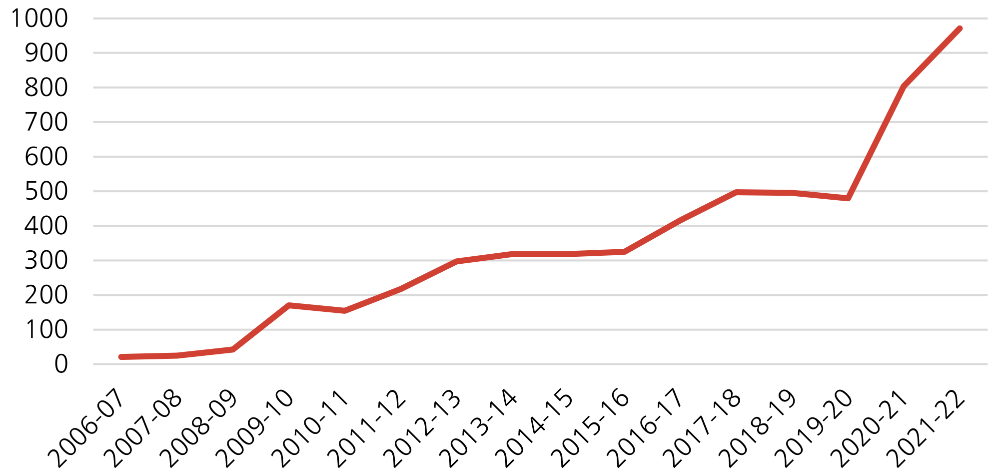
Deposits by banks £971.4 billion

1.138 Deposits by banks have increased by £167.6 billion from £803.8 billion in 2020-21. They mainly comprise reserves accounts held at the Bank of England. Reserves accounts are sterling current accounts which banks and building societies hold at the Bank of England. Repayable on demand, they are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies.

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

1.140 The deposits by banks figure referenced above differs from the figure in Chart 1.Q due to the Bank of England accounting period differing from the WGA accounting period; £971.4 billion is the Bank of England figure and represents the total for the calendar year of 2022, whilst £887.9 billion represents the WGA accounting period for the financial year 2021-22.

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

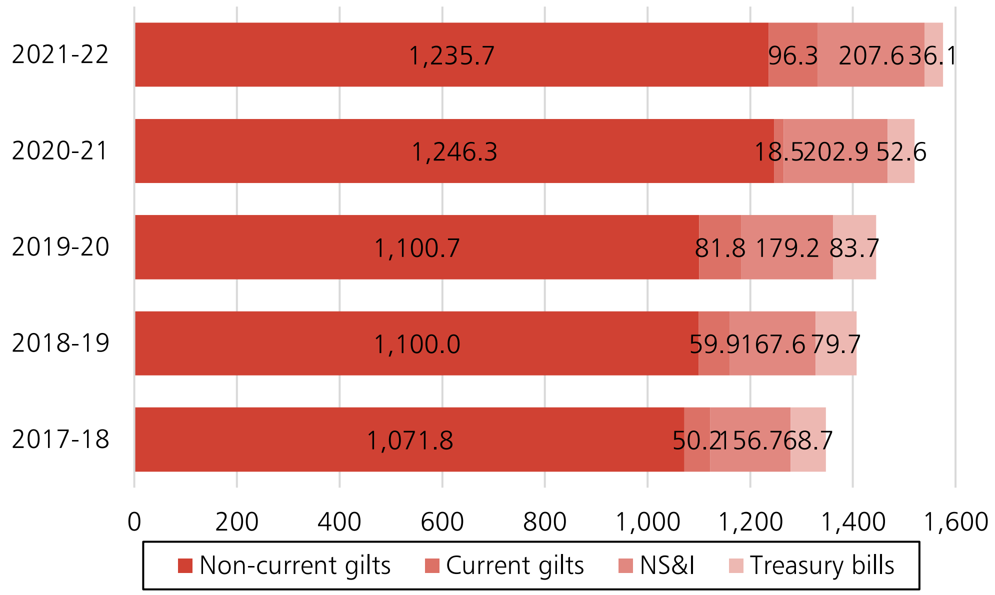


1.141 Chart 1.R above shows how deposits by banks at the Bank of England have increased over the last 15 years. During this time the Bank of England has used new monetary policy tools, such as Quantitative Easing (QE) and the Term Funding Scheme, to boost spending and investment in the economy and help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

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

Government borrowing £1,575.7 billion

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



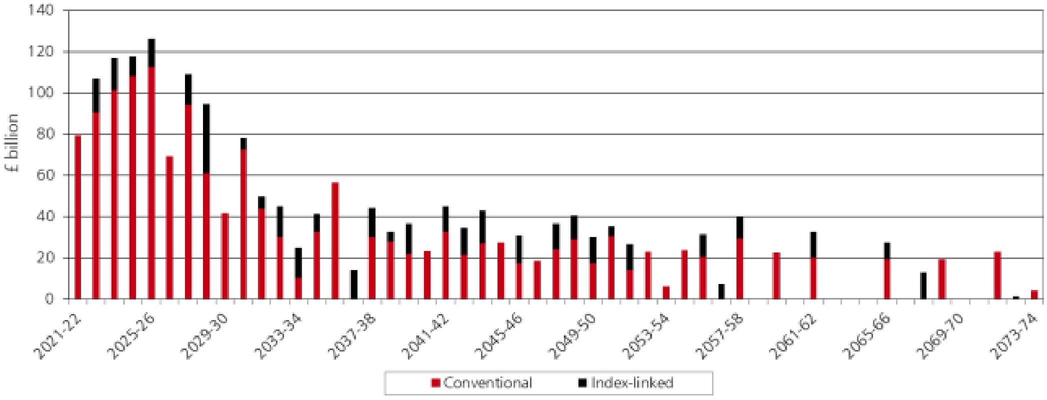
1.143 Government borrowing is achieved through the issuance of gilts and Treasury bills. The total nominal value of central government wholesale debt (excluding government holdings) as at 31 March 2022 was £1,575.7 billion, up from £1,520.3 billion as at 31 March 2021.

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

1.145 Gilts are the primary form of government debt. The gilt redemption profile as at February 2022, as disclosed in the Debt Management Office (DMO) debt management report is included in Chart 1.T. This shows that some gilts are due for redemption as far in the future as the 2070s, but the bulk are due for redemption before 2050.

1.146 The government issues a mix of fixed coupon (conventional) and index-linked gilts. Index-linked gilts have their principal and coupon payments adjusted according to the Retail Price Index (RPI) inflation measure. At Budget 2018 the government announce that it would look to manage the inflation exposure in the debt portfolio by gradually reducing the issuance of index-linked gilts as a proportion of total issuance, and the government has since made progress towards reducing inflation exposure in relative terms.

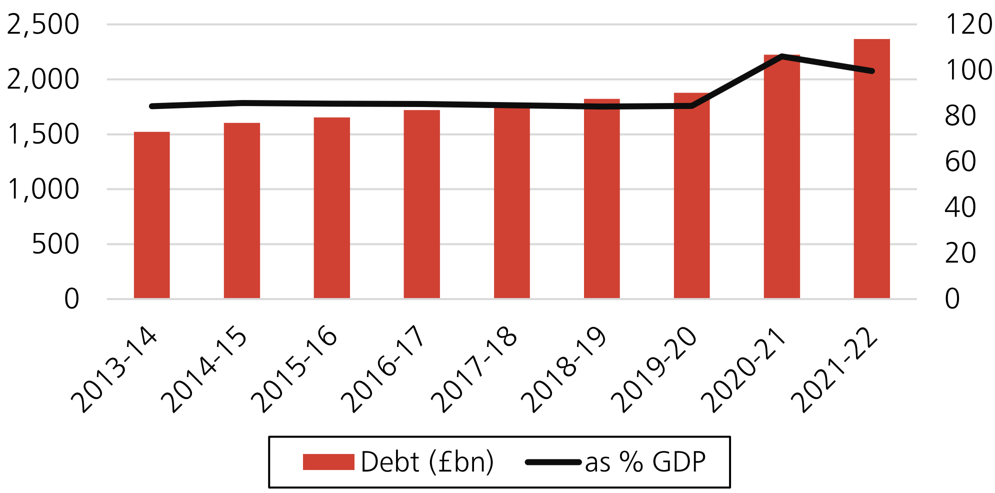
Chart 1.T: Redemption profile of gilts (£ billion)



Source: DMO

1.147 At the end of the financial year ending March 2022, the statistical measure of UK general government gross debt was £2,365.4 billion, equivalent to 99.6% of gross domestic product (GDP) (source ONS).[20] This represents an increase of £140.9 billion since the end of the financial year ending March 2021, and debt as a percentage of GDP decreased by 6.4 percentage points from 106.0% over the same period.

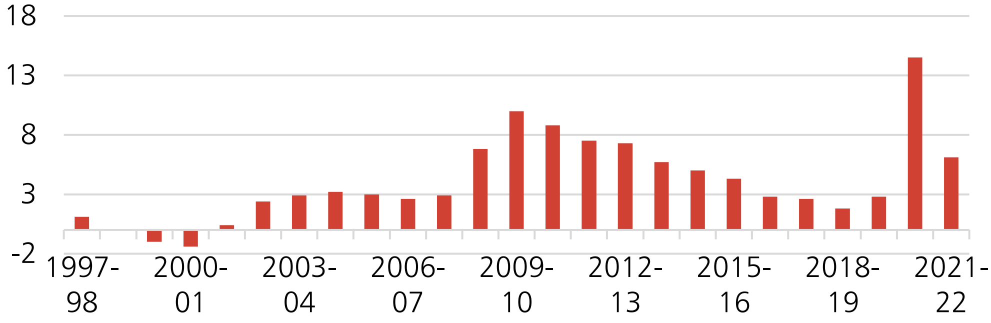
Chart 1.U: General government gross debt as a percentage of GDP over time



1.148 The UK government net borrowing (deficit) as a percentage of GDP for the year ending March 2022 was 8.4 percentage points lower than in the same period the previous year (source ONS), due to the effects of the Covid-19 pandemic during 2020-21.

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

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



Provisions £527.8 billion

1.149 Total provisions increased by 44.1% (or £161.4 billion) from £366.4 billion in 2020-21 to £527.8 billion in 2021-22. The increase was largely due to changes in the discount rate which increased total provisions by £137.4 billion (2020-21: £2.4 billion increase). For more information on the impact of discount rates on the value of the provision, please see Note 22 in the notes to the accounts.

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

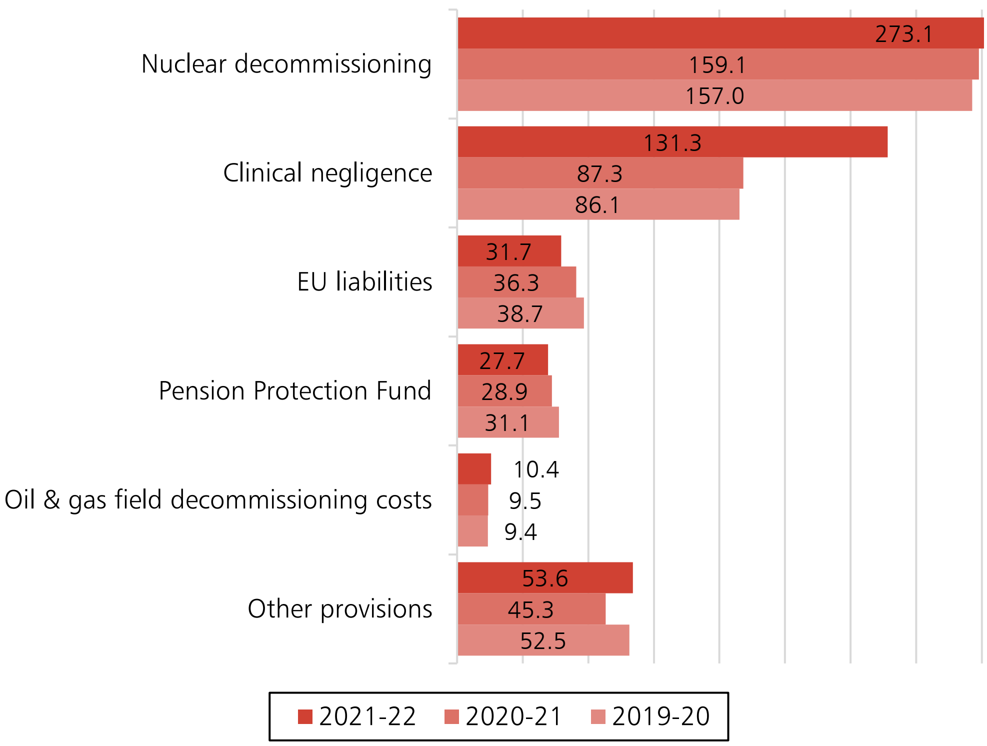
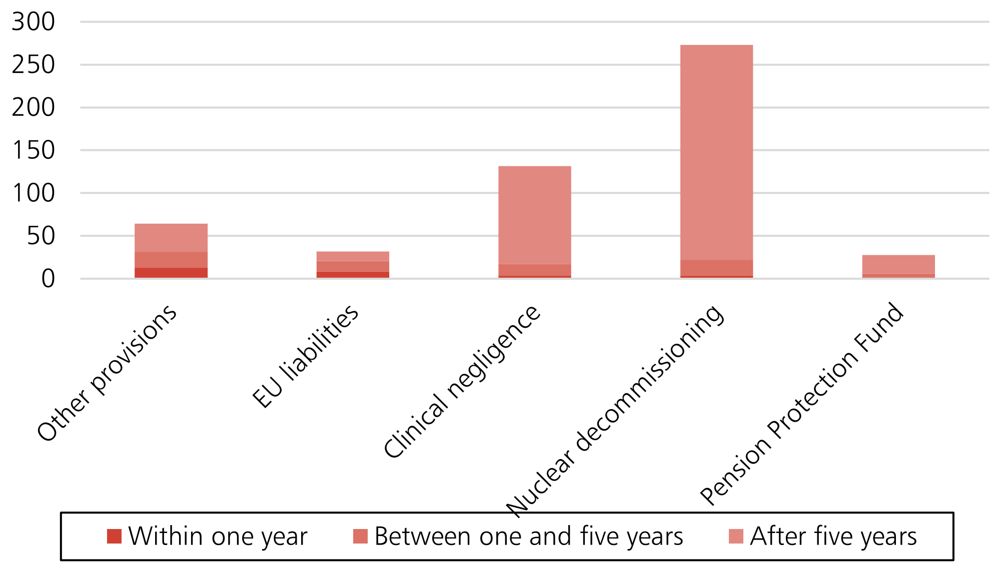
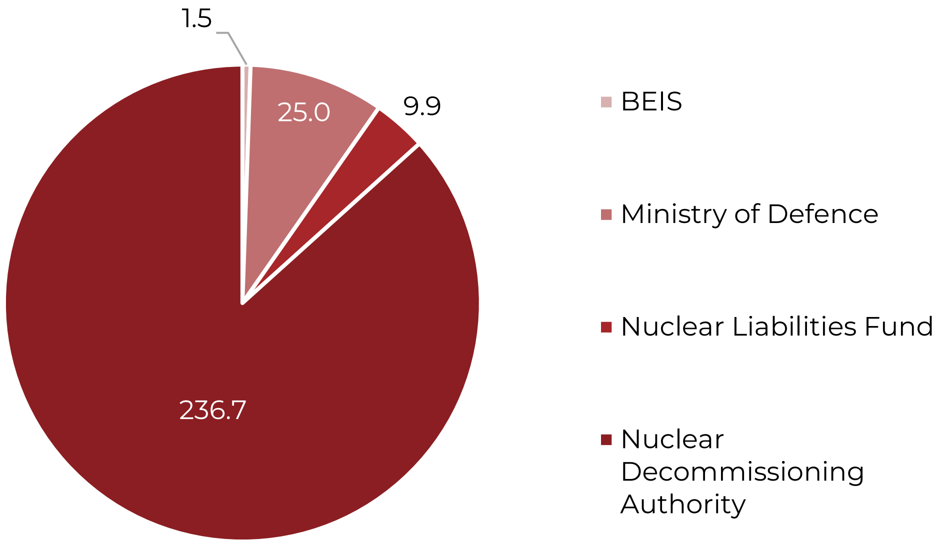


Chart 1.X: Maturity of provisions (£ billion)



Nuclear decommissioning provisions £273.1 billion

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

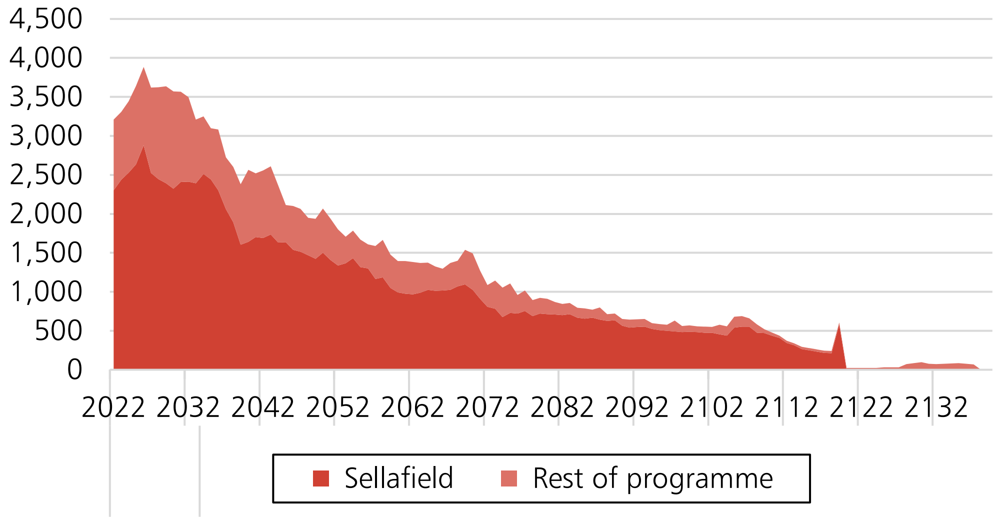


1.150 The Nuclear Decommissioning Authority (NDA) and certain other government bodies provide for future costs relating to nuclear decommissioning. The NDA provision represents 87% of the total provision in this area. The provision for nuclear decommissioning increased by £114.0 billion, from £159.1 billion in 2020-21 to £273.1 billion in 2021-22. Changes in the discount rate increased this provision by £90.5 billion (2020-21: £2.1 billion increase). NDA manages the clean-up and decommissioning of 17 nuclear licensed sites across the UK, such as former nuclear power stations and research centres. Some of these sites date from the earliest days of nuclear power. Unlike modern nuclear facilities, decommissioning of these sites was not built into plans or designs.

1.151 Decommissioning of these sites will take many decades. In part, this is because plans often include periods of 'care and maintenance', where sites are made safe and put into an interim stage, allowing residual amounts of radioactive material to decay over time. By doing this, the final stages of decommissioning will be easier and safer to complete. The Sellafield site has the largest radioactive inventory and the most complex facilities to decommission.

1.152 Chart 1.Z illustrates the expected profile of pay-outs by the NDA which total £148.9 billion before discounting and £236.7 billion after discounting. This chart is derived from figures presented in the BEIS accounts.

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



Source: BEIS

Clinical negligence provision £131.3 billion

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

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

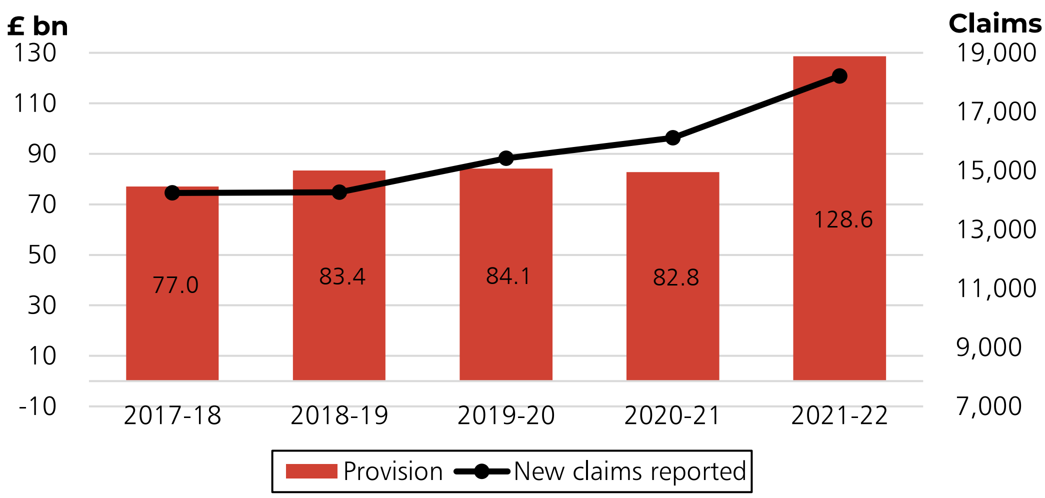
1.155 The drivers of claim costs are a combination of the number of claims received, the amount of compensation paid for those claims and the legal costs which are attached to them. Discount rates also have a significant effect on these costs.

1.156 The provision for clinical negligence claims recognised by NHS Resolution increased by £45.8 billion or 55.3% in 2021-22, from £82.8 billion to £128.6 billion. £42.6 billion of this movement was due to reductions in the long-term and very long-term discount rates. In addition to the clinical negligence provision, £73.4 billion (2020-21: £47.2 billion) is included as a contingent liability for clinical negligence.

1.157 In 2021-22, NHS Resolution received 15,078 new clinical negligence claims, an increase of 1,727 claims (12.9%) from 2020-21. The number of new non-clinical claims, typically employers' and public liability claims, increased by 13.6% to 3,134 in 2021-22. There have not yet been many claims received related to Covid-19. The additional claims impact of actions taken by the NHS to manage the pandemic are difficult to predict and will unfold over time as the average lag from an incident occurring to a claim being lodged is around three years. Further information on claims can be found on page 36 of NHS Resolution 2021-22 annual report and accounts.

1.158 The provision for liabilities as at 31 March 2022 represents the value of liabilities arising from incidents that occurred before 31 March 2022 at current prices. This figure includes claims received, and NHS Resolution's estimate of likely claims from incidents which have occurred but have yet to be reported (incurred but not reported, IBNR). Chart 1.AA provides further information.

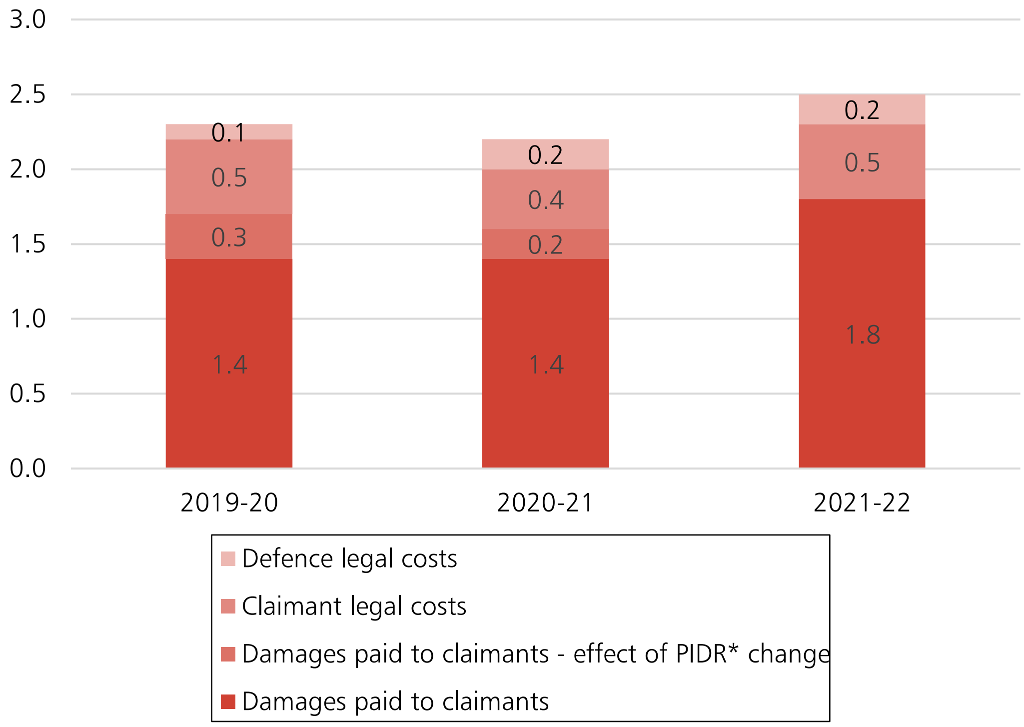
Chart 1.AA: NHS Resolution total provision for clinical and non-clinical negligence claims, and number of new claims reported in year



Source: NHS Resolution accounts 2021-22 as at March 2022

1.159 Chart 1.BB below provides a breakdown of the £2.5 billion of pay-outs made by NHS Resolution during 2021-22.

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



Source: NHS Resolution accounts 2021-22 as at March 2022
* Personal Injury Discount Rate

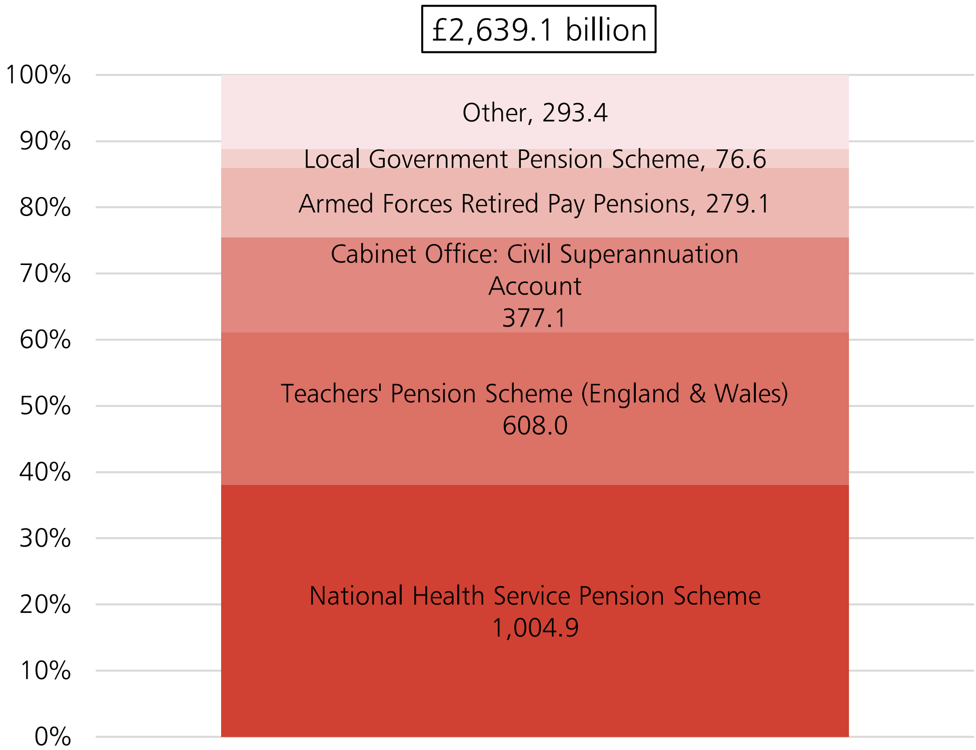
1.160 The provision is an estimate and is sensitive to changes in key assumptions. As an example, for the Clinical Negligence Scheme for Trusts (CNST) the NHS Resolution accounts estimate a figure of £62.0 billion, with a reasonable upper range of £81.1 billion, and a reasonable lower range £43.8 billion. Further information can be found in the accounts of NHS Resolution.

1.161 During 2021-22, the majority of NHS Resolution claims were settled without formal legal proceedings (77% compared to 74% in 2020-21). NHS Resolution has used dispute resolution techniques, such as mediation and more collaboration with claimant lawyers, to settle more claims before formal court proceedings are required. A decrease in the rate of claims going into formal litigation reduces the stress of that process for patients and healthcare staff and contributes to a further decrease in claimant legal costs, helping to reduce the overall cost to taxpayers.

Public sector pensions £2,639.1 billion

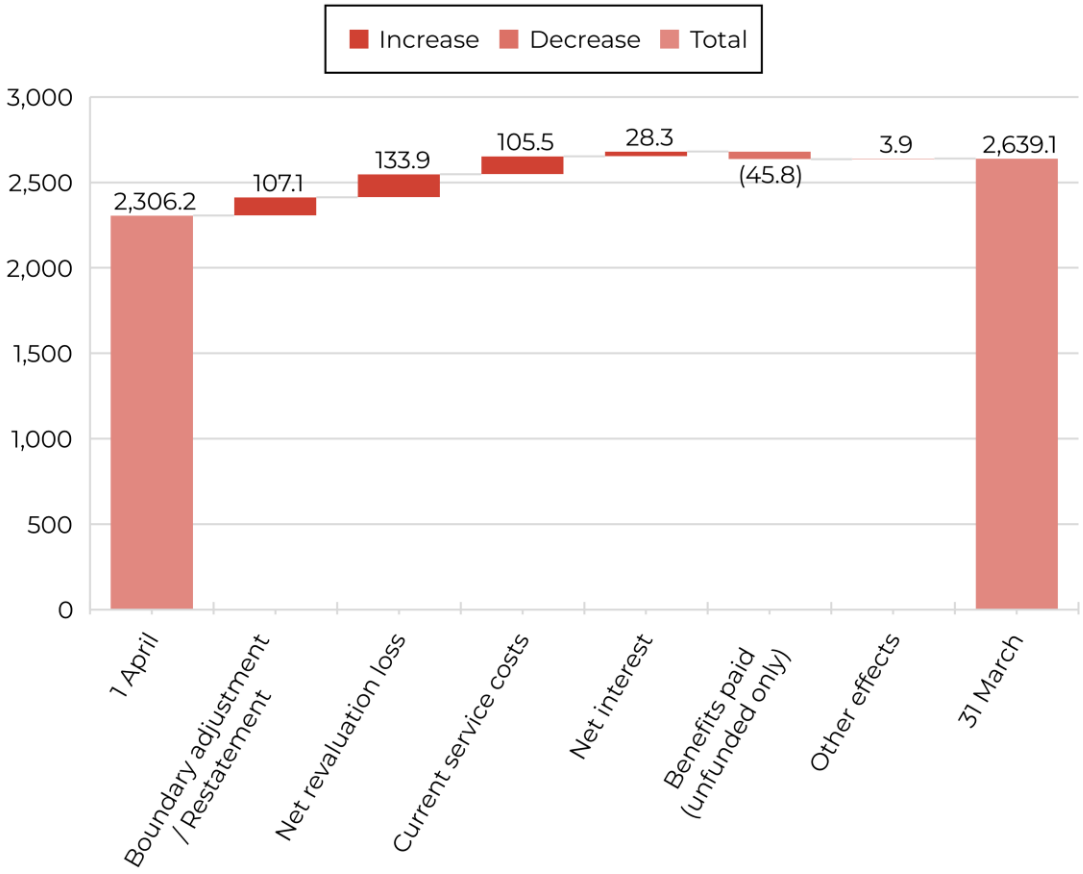
1.162 The net public sector pension accounts for 42.0% of total liabilities and is the largest liability in WGA. The net liability increased by £332.9 billion or 14.4% in 2021-22. It does not include the state pension, which is social security expenditure.

Chart 1.CC: Net public sector pension breakdown



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

Chart 1.DD: Change in net public sector pension liability



The largest public service pension schemes

1.164 Four single unfunded pension schemes make up 86.0% of the pension liability. These are: the National Health Service Pension Scheme (NHSPS), Teachers' Pension Scheme (TPS) (England & Wales), Cabinet Office Civil Superannuation (PCSPS), and Armed Forces Pension Scheme (AFPS).

Snapshot of the four biggest pension schemes

Pension Scheme	Increase in liability	Active members*
NHSPS	£112.8 billion	1,749,681
TPS	£51.3 billion	710,438
PCSPS	£34.5 billion	560,487
AFPS	£25.1 billion	287,025

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

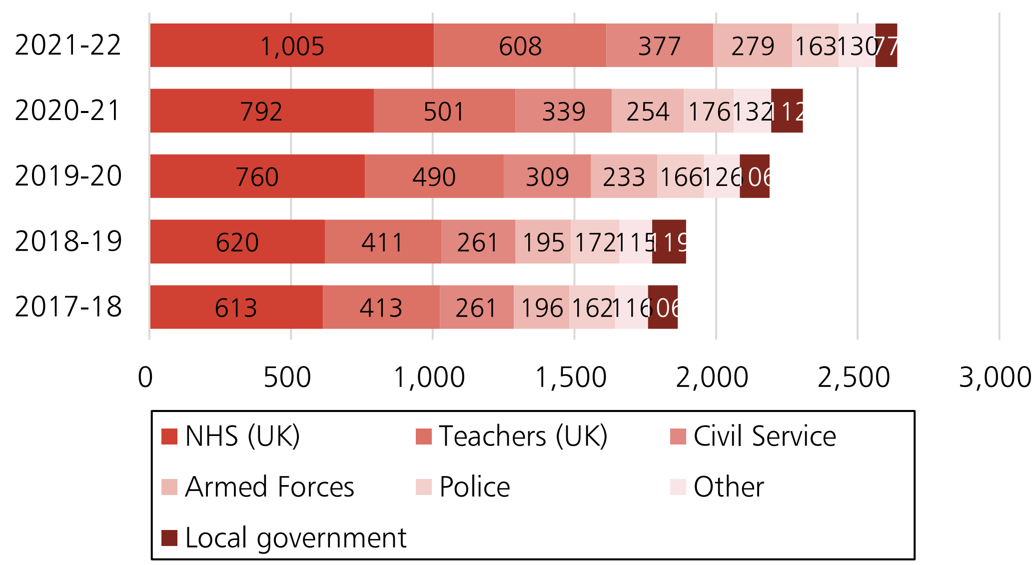
1.165 The four main schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". Pensions in payment and deferment are increased based on the change in the Consumer Price Index (CPI) in the 12 months to the end of the preceding September. As CPI at September 2019 was 0.5%, there was a 0.5% increase to these pensions in April 2021.

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

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

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

Chart 1.EE: Pension liabilities over time



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

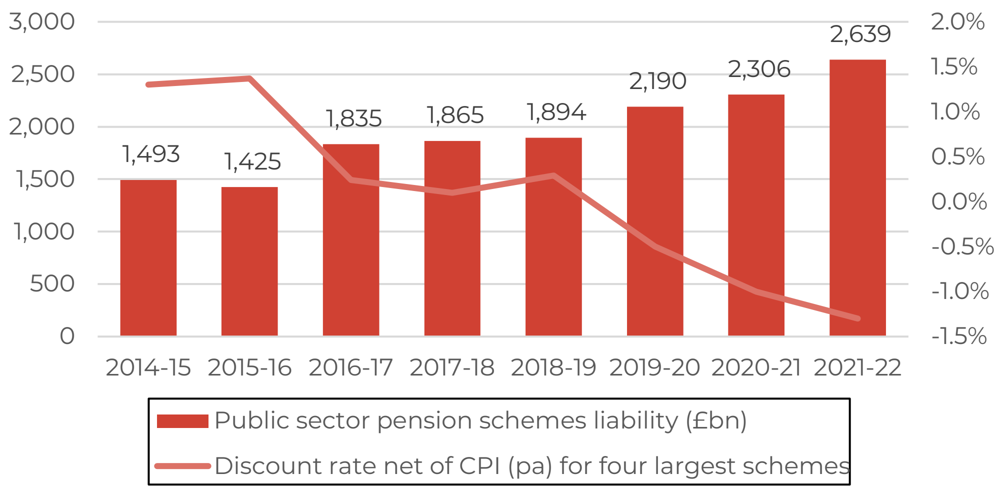
Discount rate

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

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

1.172 Chart 1.FF illustrates how the trend in this net discount rate compares with the trend in the public sector pension scheme liability over recent years. In 2021-22, there was a decrease to the central government net discount rate, from (0.95)% to (1.30)%. This alone would be expected to cause a loss on revaluation and increase the pension liability by around £175.0 billion. The actual loss on revaluation from changes in assumptions of £133.9 billion also includes the impact of other actuarial assumptions, as summarised below.

Chart 1.FF: Discount rate trend



1.173 The net discount rate for the year 2022-23 (for the central unfunded government schemes) has been set at 1.7% pa (an increase from (1.3)% pa)[21]. We therefore anticipate a decrease of perhaps around £1 trillion in the reported 31 March 2022 public sector pension scheme liability when the 2022-23 WGA is published, solely as a result of this change in the net discount rate.

1.174 The net discount rate for the year 2023-24 (for the central government unfunded schemes) has been set at 2.45% pa. We therefore anticipate a decrease of perhaps around £200 billion from the

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

reported 31 March 2023 public sector pension scheme liability when the 2023-24 WGA is published, solely as a result of this change in the net discount rate.

Actuarial assumptions

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

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

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

Maturity of public sector pensions

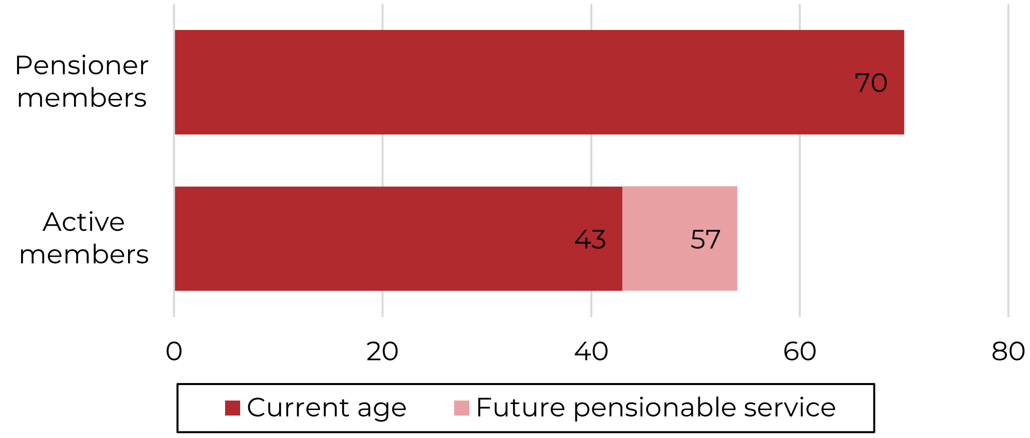
1.177 The table below shows the average life expectancy at 65 of male and female active and pensioner members. Active pension scheme members are those currently employed and paying in contributions, pensioner members are those being paid a pension. These averages have been calculated for the unfunded public service schemes (i.e. excluding the local government scheme), weighted by the pay or pension in each scheme. These figures were all calculated as at 31 March 2020 for the purposes of calculating employer contributions.

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

	Active member	**Pensioner member**
	(current age 45)	(current age 65)
Male	24	22
Female	25	23

1.178 Chart 1.HH shows the average age for active and pensioner members as at 31 March 2020 and average future service (for active members), with the average calculated in the same way as the average of the life expectancy figures above. The sum of average age and average future service represent the average age of leaving service and not the average age of retirement since not all members retire immediately after leaving service.

Chart 1.HH: Average age, for active and pensioner members (years)



1.179 Chart 1.II below shows the average duration of the liabilities for active and pensioner members calculated as at 31 March 2020. Duration is the average number of years in the future at which cash flows are paid. This average is calculated by weighting the average times to payment by the discounted cashflows due at those future times. Payments will therefore take place both before and after the duration.

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

	Active member	Pensioner
Duration	26	12

Affordability of public sector pensions

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

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

Actuarial Valuations of liabilities and provisions

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

What is an actuarial valuation?

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

Setting assumptions

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

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

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

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

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

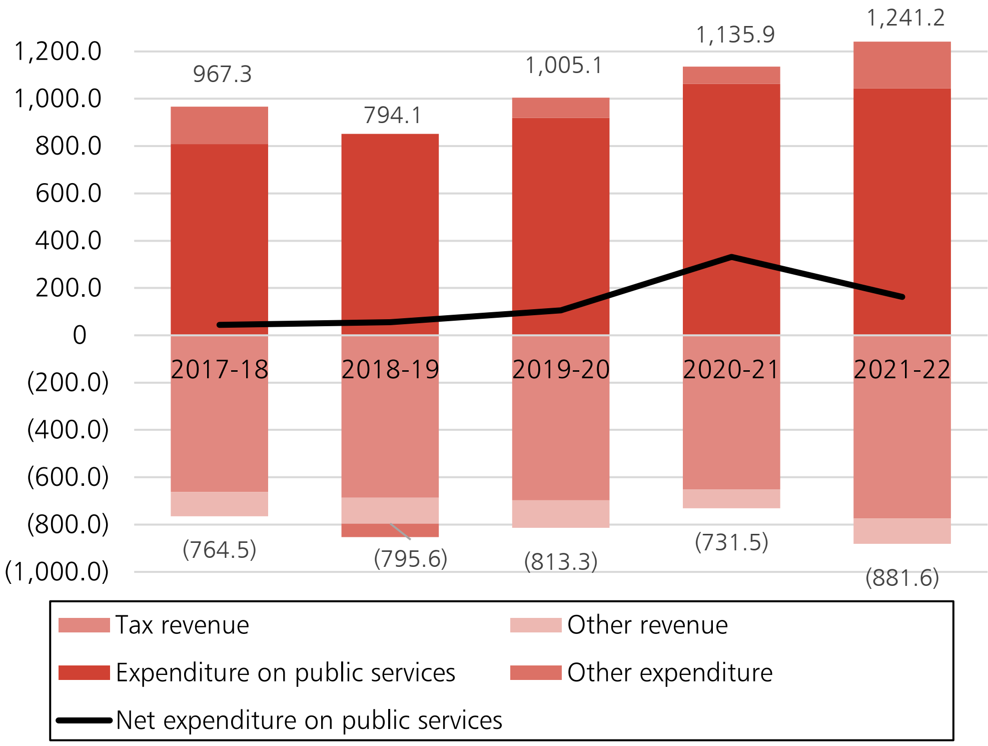
Data

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

Report on Income and Expenditure

1.182 Over the last 5 years the net expenditure on public services shown by the black line in Chart 1.JJ, has increased by 267% (£118.5 billion). After being largely flat from 2015-16 to 2017-18, net expenditure increased across 2018-19 and 2019-20 and increased further in 2020-21 before dropping back in 2021-22. Across these years this was largely driven by an increase in expenditure on public services, with the particular increase in 2020-21 a response to the Covid-19 pandemic.

Chart 1.JJ: 5 year trend on income and expenditure (£ billion)



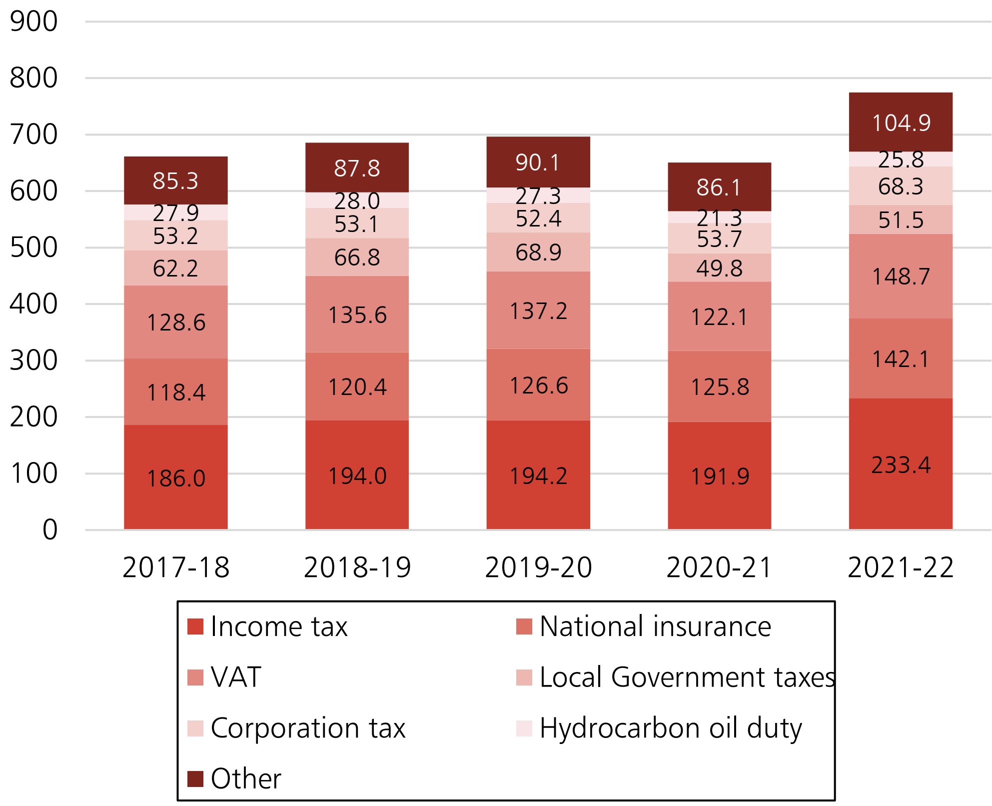
1.183 Conversely, total net expenditure for the year fluctuates radically from year to year. In several years, including 2021-22, this has been driven by provision financing costs which include the impact of changes in discount rates used for provisions. These costs are an accounting measure and do not represent cash spent during the year.

Income

The government received £881.6 billion in income

1.184 Taxation revenue makes up 87.9% (£774.7 billion) of total income, 93.0% of which is collected by HMRC. Taxation revenue is driven by the overall level of activity in the economy and by the rates of taxation, allowances and reliefs. The Covid-19 pandemic and the government policies announced in response to it have had significant impacts on amounts collected across a number of taxes, particularly in deferring payments from 2020-21 to 2021-22.

Chart 1.KK: Taxation revenue over time (£ Billion)



1.185 Income tax, National Insurance Contributions and VAT make up the three largest elements of total tax revenue, but a wide range of other taxes and duties are also factored in.

Snapshot of taxation revenue- total revenues by type of tax

Income Tax • £233.4 billion total revenue • 22% increase from 2020-21	**National Insurance Contributions** • £158.3 billion total revenue • 12% increase from 2020-21
Value Added Tax • £148.8 billion total revenue • 22% increase from 2020-21	**Corporation Tax** • £68.3 billion total revenue • 27% increase from 2020-21
Hydrocarbon Oils • £25.8 billion total revenue • 21% increase from 2020-21	**Stamp Taxes** • £18.7 billion total revenue • 48% increase from 2020-21
Alcohols • £13.1 billion total revenue • 8% increase from 2020-21	**Capital Gains Tax** • £15.8 billion total revenue 32% increase from 2020-21
Air Passenger Duty • £1.2 billion total revenue • 300% increase from 2020-21	**Insurance Premium Tax** • £6.7 billion total revenue • 10% increase from 2020-21
Tobacco • £10.2 billion total revenue • 4% increase from 2020-21	**Other** A number of other taxes, including inheritance tax, customs duties and apprenticeship levy account for the remaining revenue.

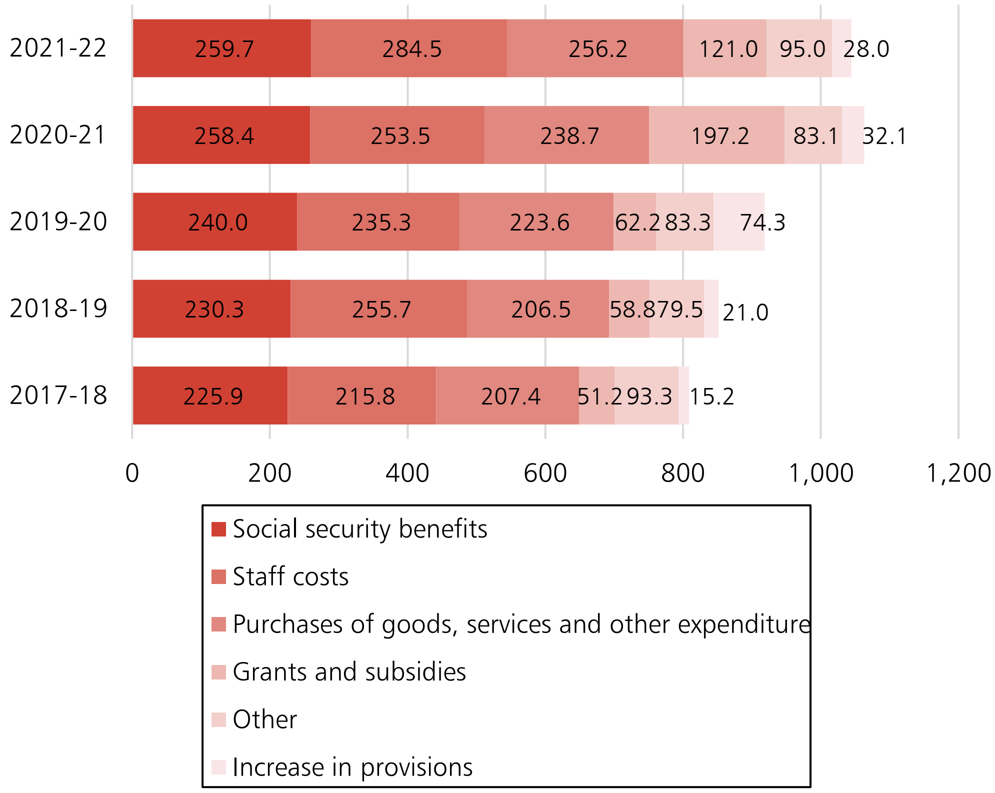
Source: HMRC Annual Report and Accounts 2021-22

Expenditure

Total expenditure on public services is £1,044.4 billion

1.186 The government spent £1,044.4 billion on public services. The most significant elements were **social security benefits** of £259.7 billion (2020-21: £258.4 billion), **staff costs** of £284.5 billion (2020-21: £253.5 billion) and **purchase of goods and services** of £256.2 billion (2020-21: £238.7 billion), each of which is explored in more detail in the following sections.

Chart 1.LL: Expenditure on public services (£ billion)



1.187 Overall, total expenditure on public services has increased by 29.1% over the last 5 years. The largest change for 2021-22 was a decrease in grants and subsidies of £76.2 billion to £121.0 billion. This followed an increase in grants and subsidies of £135.0 billion during 2020-21, which was largely driven by the issuing of a range of additional grants in response to the Covid-19 pandemic. Further details can be found in Note 9.

1.188 As well as WGA, the Treasury publishes the Public Expenditure Statistical Analysis (PESA)[22] and the Country and Regional Analysis (CRA).[23]

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

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

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

Chart 1.MM: Public Expenditure breakdown - Functional 2016-17 to 2021-22

Function	2021-22 £bn	% of total	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
Social protection	298.7	31%	299.3	275.8	278.4	268.7	265.4
Health	216.8	23%	218.6	164.1	152.9	147.3	142.6
Education	100.3	11%	95.5	90.6	88.1	86.1	84.9
Defence	48.6	5%	44.6	42.2	40.2	38.7	37.1
Public order and safety	42.3	4%	38.9	34.5	32.4	31.5	30.1
Transport	45.2	5%	49.8	34.6	32.7	30.3	28.8
Other economic affairs	51.8	5%	146.6	32.1	28.0	22.8	20.4
Environment protection	13.9	1%	13.0	11.8	11.1	11.8	11.1
Housing and community amenities	15.3	2%	13.6	14.2	12.0	11.4	10.3
Recreation, culture and religion	12.8	1%	12.9	11.9	11.4	11.5	11.6
General public services	35.8	4%	29.8	26.2	24.7	22.9	23.3
Debt interest	72.8	8%	41.8	52.9	54.5	60.1	55.3
EU transactions	(1.8)	0%	7.0	5.8	7.8	5.4	4.7
Public services expenditure per PESA	**952.5**	**100%**	**1,011.4**	**796.7**	**774.2**	**748.5**	**725.6**
Add: Depreciation and impairment	47.9		61.9	51.5	47.9	56.5	47.1
Add: Increase in provisions	28.0		32.1	74.3	21.0	15.2	18.6
Accounting adjustments	16.0		(57.3)	(113.7)	(77.3)	(87.4)	(41.9)
WGA expenditure on public services	**1,044.4**		1,063.0	808.8	762.6	742.2	751.3

Source: Public Expenditure Statistical Analysis 2022 table 4.2 as at March 2022[24]

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

Chart 1.NN: Public Services expenditure breakdown – Country and Regional 2016-17 to 2021-22

Region	2021-22 £bn	% of total	2020-21 £bn	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn
North East	31.8	3%	36.2	27.5	26.6	25.7	25.6
North West	89.8	9%	100.6	75.2	72.3	80.0	68.3
Yorkshire and the Humber	61.0	7%	69.8	51.7	50.0	48.5	48.1
East Midlands	51.4	5%	58.9	43.1	41.3	39.8	39.1
West Midland	68.7	7%	76.6	57.0	54.8	52.3	51.5
East	68.3	7%	78.3	56.4	54.0	51.5	49.7
London	120.7	13%	139.5	97.8	93.0	91.0	88.6
South East	99.0	10%	113.4	81.7	79.0	75.3	73.5
South West	61.7	7%	71.3	52.1	49.8	47.9	47.0
Scotland	76.1	8%	81.1	63.3	60.8	58.6	57.4
Wales	41.6	4%	45.1	34.5	33.4	32.4	31.4
Northern Ireland	26.8	3%	29.1	22.7	21.7	20.8	20.5
Outside UK	22.1	2%	26.1	28.3	30.0	26.4	25.5
Non-identifiable expenditure	138.7	15%	100.3	105.4	104.3	107.7	101.3
Public sector expenditure on services	**957.7**	**100%**	**1,026.3**	**796.7**	**771.0**	**757.9**	**727.5**
Add: Depreciation and impairment	47.9		61.9	51.5	47.9	56.5	47.1
Add: Increase in provisions	28.0		32.1	74.3	21.0	15.2	18.6
Accounting adjustments	10.8		(57.3)	(113.7)	(77.3)	(87.4)	(41.9)
WGA expenditure on public services	**1,044.4**		**1,063.0**	**808.8**	**762.6**	**742.2**	**751.3**

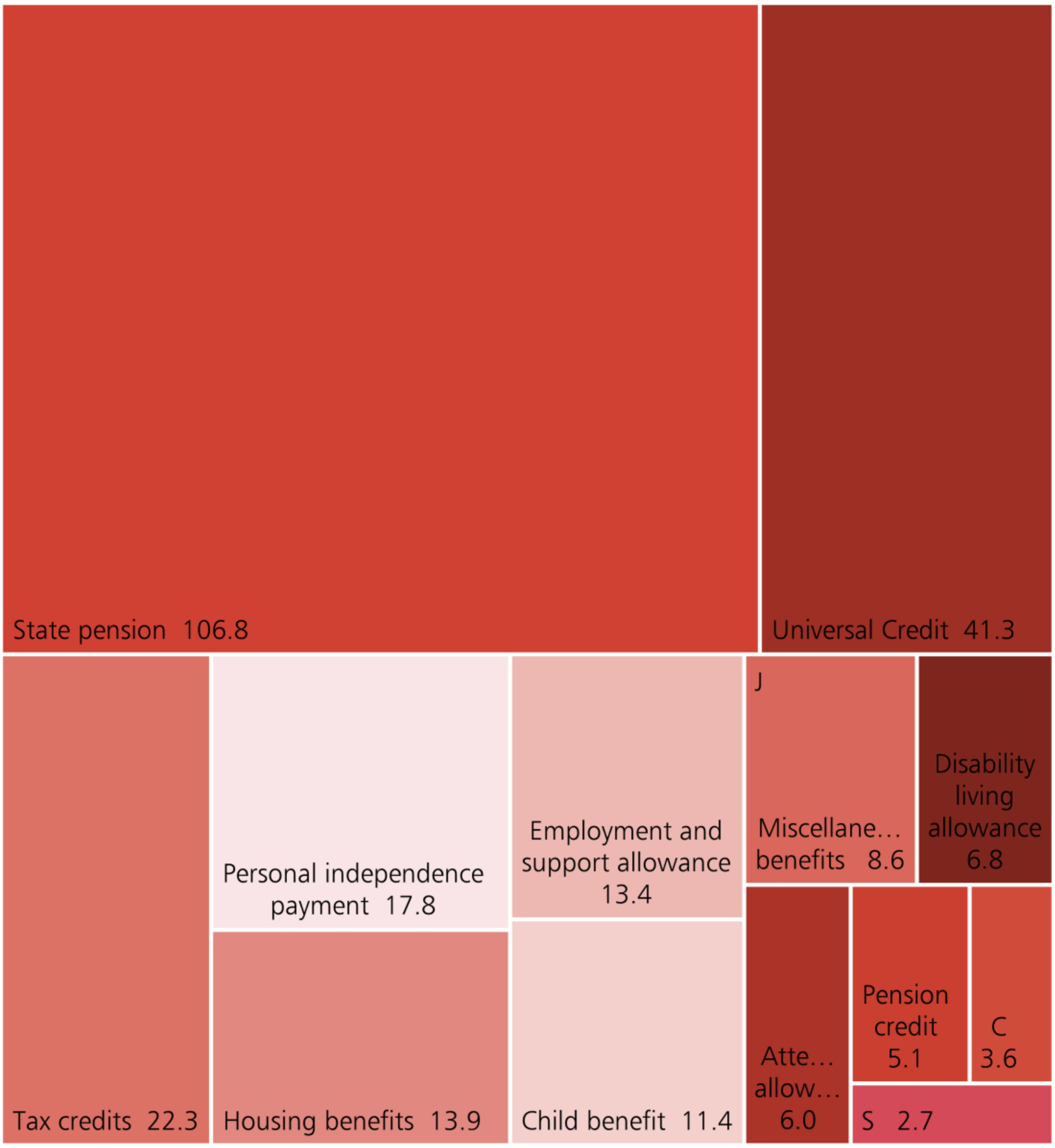
Source: Country and Regional Analysis 2021 table A.1a as at March 2022[25]

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

Social security benefits totalled £259.7 billion

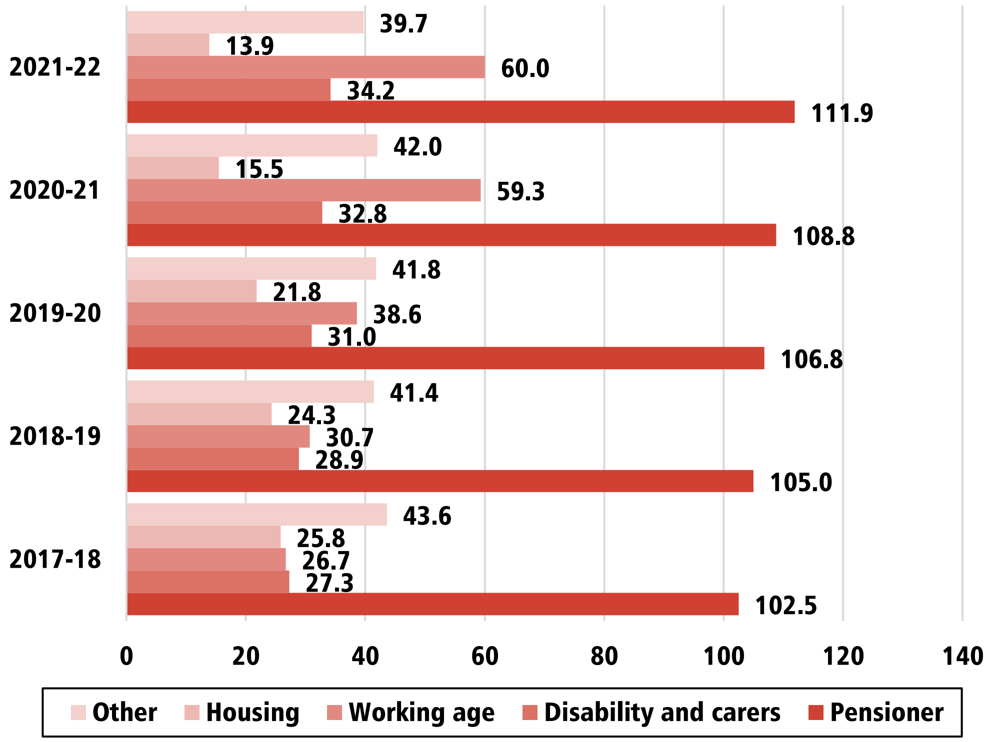
1.190 Government spending on social security benefits increased by £1.3 billion (0.5%) in 2021-22 compared with 2020-21. It has increased by £33.8 billion over the last five years. The largest element of social security benefits is the state pension at £106.8 billion. The most significant increase has been to the State Pension, which increased by 3.2% (£3.3 billion) in line with inflation, as required by the "triple lock". Tax credits decreased by £3.5 billion while Universal Credit increased by £2.4 billion. Tax credit customers are encouraged to move to Universal Credit as tax credits will end by 2024.

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



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

Chart 1.PP: Social security benefits over time (£ billion)



Staff costs totalled £284.5 billion

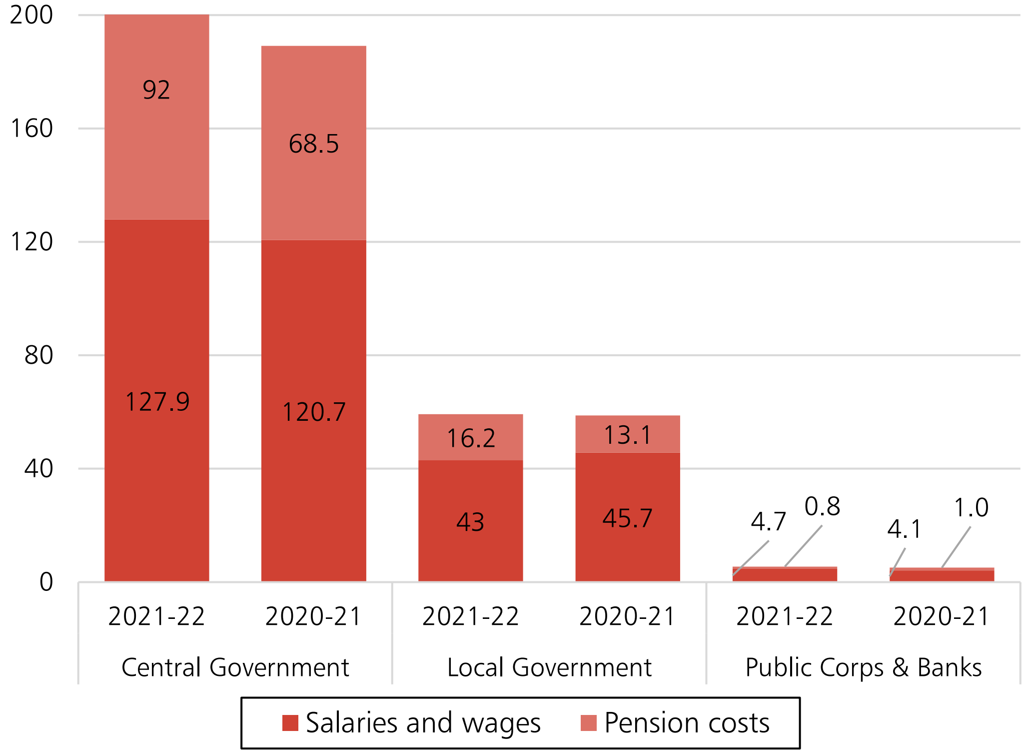
1.191 Staff costs comprise expenditure on salaries and wages, and expenditure on pension costs.

1.192 In 2021-22, the cost of salaries and wages recognised in WGA was £175.6 billion (2020-21: £171.0 billion), an increase of 2.7% on the prior year which took place alongside a 1.0% increase in staff numbers. This compares to 1.7% increase in staff costs in 2020-21, which saw a 3.9% decrease in staff numbers.

1.193 Pension costs increased by 32.0% to £108.9 billion in 2021-22 (2020-21: £82.5 billion), largely due to an increase of £27.0 billion in current service costs net of employee contributions.

1.194 Further details on staff costs and numbers are included in the staff cost Note 7. Further information on public sector pension costs, and the drivers of changes to these costs, are included in the pension liabilities section of this chapter (from paragraph 1.162) and in Note 24 to the accounts.

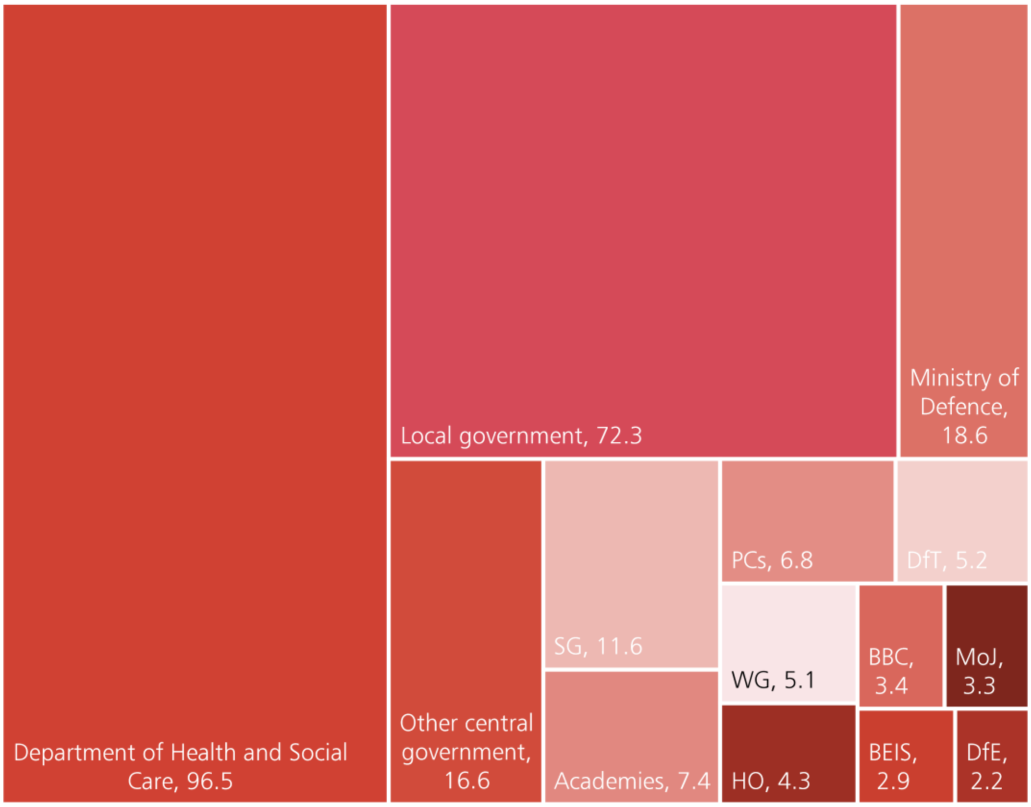
Chart 1.QQ: Staff costs by sector (£ billion)



Purchase of goods and services totalled £256.2 billion

1.195 Purchase of goods, services and other expenditure increased 7.3% or £17.5 billion compared to 2020-21. The balance can be analysed by identifying which entities make up the largest balances.

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



1.196 The Department of Health and Social Care (DHSC) reported the largest expenditure of purchase of goods and services of £96.5 billion (2020-21: £89.2 billion). The Secretary of State for Health and Social Care and other departmental ministers are accountable to Parliament for the provision of the comprehensive health and social care services in England. To enable the system to work flexibly, the critical day-to-day operational decisions are made by the professionals working in provider organisations, supported by the strategic and regulatory functions carried out by DHSC's arms-length bodies.

1.197 The Ministry of Defence has the second largest Departmental spend for purchase of goods and services at £18.6 billion (2020-21: £17.0 billion). The Ministry of Defence plays a pivotal role in providing defence and security for people of the United Kingdom across the globe. Defence's contribution to the Covid-19 response represented the most significant domestic resilience operation in peacetime. It was a National and Whole Force response, uniting regulars and reservists, soldiers and academics, sailors and civil servants. The Integrated Review published in March 2021 is the most comprehensive articulation of a defence, foreign and national security approach published by a British Government in decades and paves the way for a modernisation of defence.

1.198 Other large departmental spend includes Scottish Government (£11.6 billion) and academies (£7.4 billion). In all cases expenditure excludes transfers to other parts of the public sector (for example from the Department for Education to academies or local authorities).

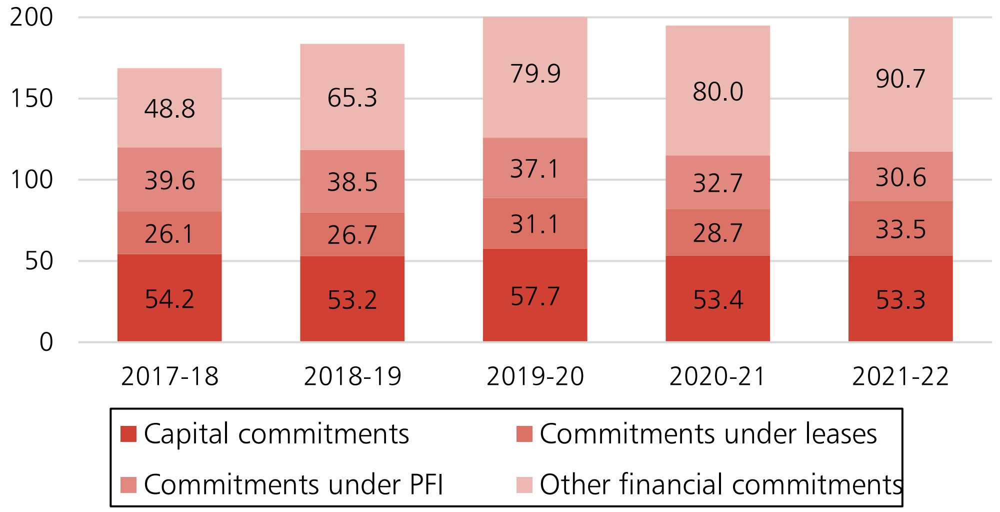
1.199 The wide range of activities carried out by entities in the public sector, differences in what is material in each entity and differences in reporting conventions mean that it is hard to analyse expenditure on goods and services by category within WGA. For example, central government departments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

Commitments and contingent liabilities

Commitments

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

Chart 1.SS: Commitments (£ billion)

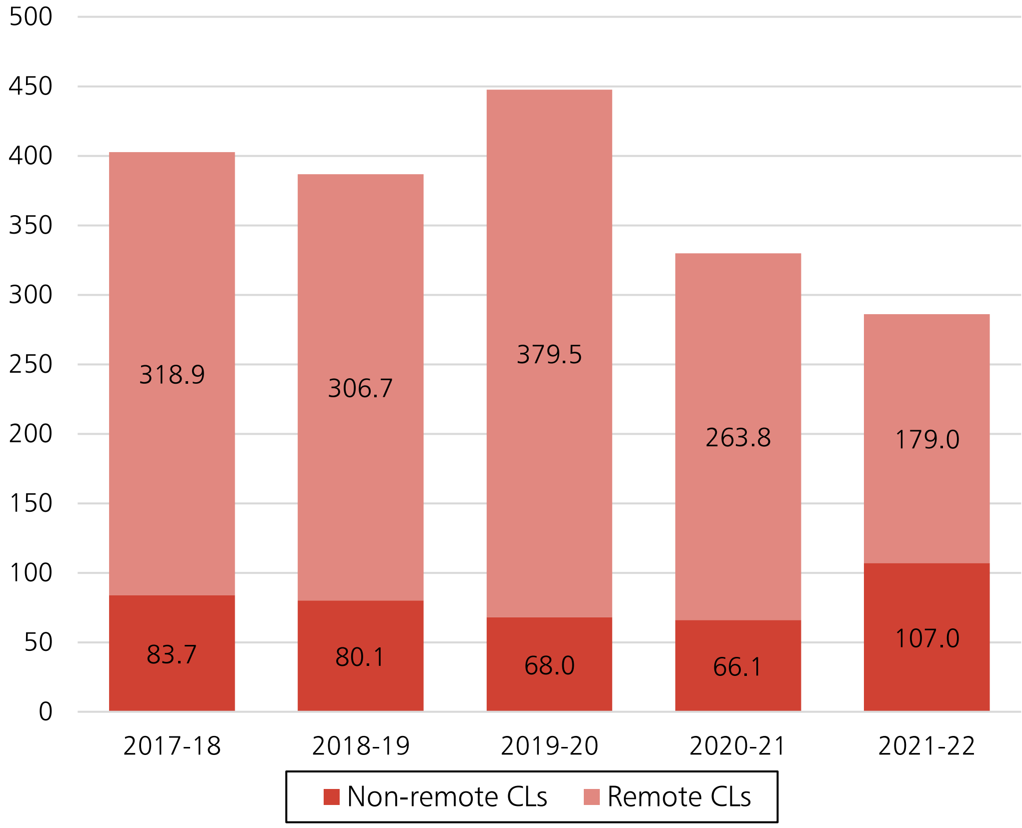


1.201 Commitments have increased by 23.4% over the 5 years to 2021-22, largely driven by an increase in other financial commitments which have nearly doubled over this period. However other financial commitments hardly moved from 2019-20 to 2020-21, following a restatement of the 2019-20 figure from £70.9 billion to 79.9 billion.

Contingent liabilities

1.202 The government has a total of £286.0 billion disclosed as contingent liabilities, a decrease of £43.9 billion from 2020-21. These include £107.0 billion (2020-21: £66.1 billion) of contingent liabilities that are reported under the accounting standards, and a further £179.0 billion (2020-21: £263.8 billion) of remote contingent liabilities. As the chance of these liabilities becoming due is considered remote, the accounting standards do not require their disclosure. However, the Treasury requires government departments to disclose remote contingent liabilities through its government reporting framework.

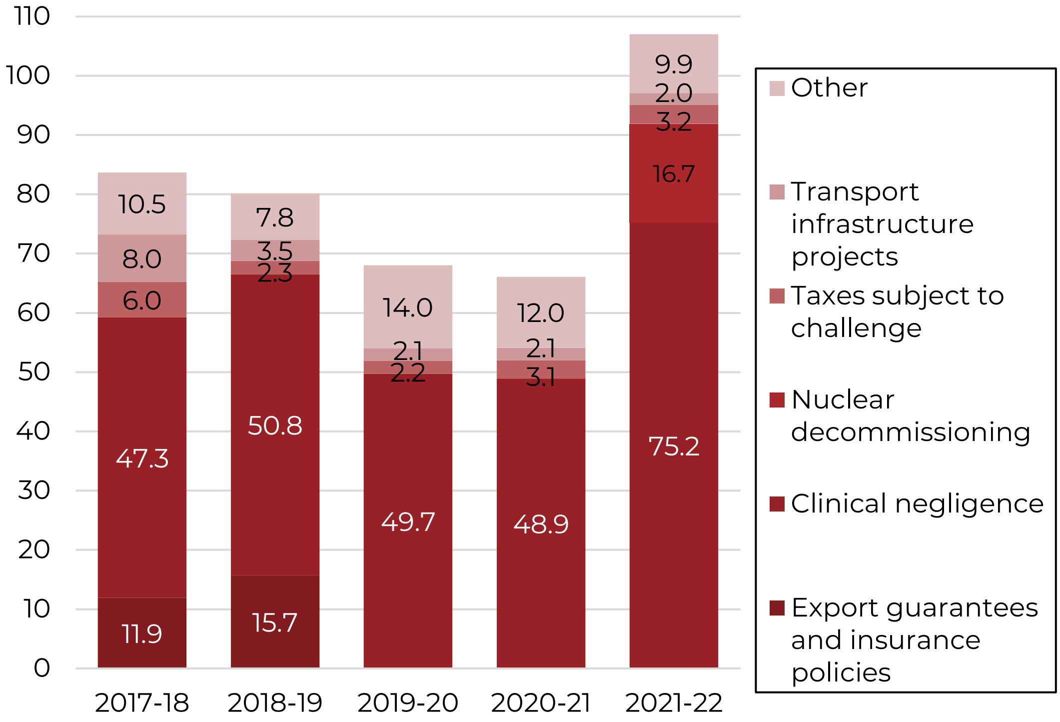
Chart 1.TT: Quantifiable contingent liabilities: non-remote and remote (£ billion)



1.203 Remote contingent liabilities totalled £179.0 billion (2020-21: £263.8 billion). The largest component of this is the remote contingent liability held by the Pension Protection Fund (PPF) and is valued at £60.0 billion (2020-21: £140.0 billion). This is the aggregate value of all potential claims. Further details on the decrease of this remote contingent liability can be found in Note 30.

1.204 Non-remote contingent liabilities totalled £107.0 billion in 2021-22. The contingent liability for clinical negligence has increased over the last five years and now makes up 70.3% of the total, as shown below in Figure 1.UU. A new contingent liability of £16.7 billion has been disclosed for nuclear decommissioning.

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



1.205 The largest quantifiable non-remote contingent liability is clinical negligence, of £75.2 billion (2020-21: £48.9 billion). The Department of Health and Social Care is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is a large degree of uncertainty as to the Department's (and other health bodies') liability. The contingent liability is an estimate of this possible expenditure.

Other matters

Government emissions

1.206 The Greening Government Commitments[26] (GGCs) set out the actions UK central government departments and their agencies will take to reduce the negative effects that government's estates and operations have on the environment. Individual departments are required to publish their own sustainability reports either as part of their annual report, or as separate reports, which show progress against the following commitments:

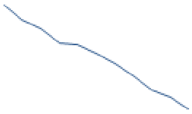
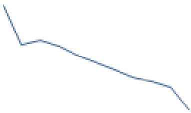
- Reduce emissions: reduce greenhouse gas emissions by at least 43% from a 2010 baseline and reduce the number of domestic business flights by at least 30% from the 2010 baseline.
- Improve waste management: reduce the amount of waste going to landfill to less than 10% and reduce government's paper use by at least 50% from a 2010 baseline
- Reduce water use by continuing to improve on the reductions each department made by 2015
- Buying 'greener' products and services: continuing to buy more sustainable and efficient products and services with the aim of achieving the best long-term, overall value for money for society.
- Being open and transparent by reporting publicly on the steps departments are taking to address: climate change adaptation; biodiversity and the natural environment; procurement of food and catering services; sustainable construction; and any other issues that departments consider to be most significant to reducing the environmental impact of their activities.

1.207 The GGC Annual Report brings these together to show progress by government departments against the GGCs. The GGC 2020-21[27] report summarises the progress made during that year against the 2016 to 2020 GGCs framework.

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

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

Chart 1.VV: GGC progress against targets

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

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

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

1.210 In October 2021, the UK government introduced the latest GGCs framework covering 2021 to 2025[28]. The targets in this framework are set against a baseline of 2017-18, allowing departments to measure their reductions against recent pre-Covid levels. The forthcoming 2021-22 GGCs annual report will be the first report against this framework.

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

Climate-Related Financial Disclosures

1.211 In June 2022, the Financial Reporting Advisory Board (FRAB) agreed with HM Treasury's proposal to implement Task Force on Climate-related Financial Disclosures (TCFD) aligned disclosures in annual reports, and to develop cross-public sector guidance to support annual report preparers. This will align central government climate-related financial disclosures with best practice in the private sector, improve climate-related risk reporting, and embed climate change into organisations' decision-making processes. In March 2023, HM Treasury set out a three-year phased implementation approach for central government. All departments and large arms-length bodies will be required to apply TCFD-aligned disclosure on a comply or explain basis. Other relevant authorities are deciding on their own implementation for the wider public sector.

1.212 TCFD-aligned disclosure application guidance[29] has been published for Phase 1 on the Governance pillar, and Phase 2 on the Risk Management and Metrics and Targets pillars – applying to 2023-24 and 2024-25 reporting periods, respectively. HM Treasury is drafting and consulting on the final Phase 3 guidance, on the Strategy pillar, throughout 2024. This will apply to central government annual reports and accounts from 2025-26. Post implementation, HM Treasury will assess which TCFD-aligned disclosures are relevant to WGA to support report users.

1.213 Adopting TCFD-aligned disclosure is an appropriate step forward, considering the uptake of the framework's structure and underlying disclosures by the UK private sector and by international standard-setters. With TCFD as a common building block in other frameworks, the 'TCFD-first' approach offers a suitable step forward while maintaining flexibility in any decision on future sustainability reporting standards. The sustainability reporting landscape continues to develop at pace, with the International Sustainability Standards Board (ISSB) issuing their first two sustainability reporting standards in June 2023 (with the UK endorsement process ongoing). In addition, the International Public Sector Accounting Standards Board (IPSASB) is developing a climate-related exposure draft (expected in June 2024) and a standard (expected in the second half of 2025). FRAB supports the view that making a decision on a future UK public sector sustainability reporting - beyond the TCFD recommendations - would be premature given the rapid pace of change in international sustainability reporting standard development. FRAB and the FRAB Sustainability Subcommittee will continue to monitor external developments with the aim of assessing whether and when it would be appropriate to decide on and implement any further sustainability reporting standards.

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29 TCFD-aligned disclosure guidance for public sector annual reports - GOV.UK (www.gov.uk)

Net Zero

1.214 The UK was the first major economy to embrace a legal obligation to achieve net zero carbon emissions by 2050, and in March 2023 published Powering Up Britain[30]. This publication brings together the Energy Security Plan and Net Zero Growth Plan to set out how the government will enhance the UK's energy security, take advantage of the economic opportunities of the energy transition and deliver on its net zero commitments. These plans will be delivered across a number of areas including:

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

Spending on Net Zero

1.215 At Spending Review 2021 the Government committed a total of £30 billion of domestic investment for the green industrial revolution. Net Zero capital funding agreed at SR21 was detailed in the Net Zero Strategy (2021). Since then, the Government has committed £6 billion of new government funding for energy efficiency which will be made available from 2025 to 2028, in addition to £6.6 billion allocated this Parliament. An additional up to £20 billion in long-term funding was announced at Spring Budget 2023 for the early deployment of CCUS. The first two clusters (in the North East and North West of England and North Wales) are currently in negotiations, and we have committed to develop a further two clusters through Track 2 of the CCUS programme. Autumn Statement 2023 included an additional £960 million for supporting manufacturing capacity in the clean energy sectors where the UK has the strongest current or potential advantage and which are critical for delivering net zero, under the Green Industries Growth Accelerator (GIGA). The government also announced over £2 billion for the automotive sector for the manufacturing and development of zero emission vehicles and their supply chains, and £975m for the aerospace

30 Powering up Britain - GOV.UK (www.gov.uk)

sector to support world-class R&D and the development of zero-carbon and ultra-low emission aircraft technology. In December 2023 the government also announced plans to implement a Carbon Border Adjustment Mechanism by 2027 to ensure carbon intensive products from overseas face a comparable carbon price to those produced in the UK to ensure that UK decarbonisation efforts lead to a true reduction in global emissions rather than simply displacing carbon emissions overseas.

1.216 The UK uses a range of other financing mechanisms to provide long-term certainty for investors to deliver net zero, including the Contracts for Difference scheme for low-carbon electricity generation, through which generators have received almost £6 billion in price support to date. This complements the capital available through the UK's public financing institutes towards net zero – including across the UK Infrastructure Bank, British Business Bank, UK Research and Innovation and UK Export Finance. Autumn Statement 2023 delivered several measures to improve the cross-economy enabling environment for investment which will be vital to delivering the net zero transition, including making full expensing for plant and machinery investments permanent, speeding up grid connections and reforming the planning system.

Cross-government fraud landscape

1.217 The UK government aims to be the most transparent in the world in how it deals with fraud against the public sector. As part of this commitment, it has published the Cross-Government Fraud Landscape Report[31]. The levels of fraud and error in the tax and welfare systems are already published in the accounts of HM Revenue and Customs and the Department for Work and Pensions respectively. The Cross-Government Fraud Landscape Report completes the picture by detailing the levels of fraud and associated error that other central government departments and public bodies are reporting, and have dealt with, in the associated year.

1.218 The challenge for the government in acting on fraud against the public sector remains significant. The overall estimate (including tax and welfare) is that every year at least £33.2 billion of taxpayers' money is subject to error and fraud (both detected and undetected). The more this can be acted on, the more the costs of public services can be reduced.

Fraud and error estimates

1.219 When measuring the extent of fraud in the system, the government considers overall fraud and error loss. The reason for this is that the difference between fraud and error is intent and when undertaking large estimations, the certainty around the intent behind

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

individual interactions is low - and as such it is more accurate to state the loss is fraud and/or error.

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

Impact of Covid-19

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

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

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

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

1.225 These lessons will be embedded further in the work of the Public Sector Fraud Authority which was announced within Spring Budget 2022 and published its first Annual Report[32] in March 2023.

Measures to mitigate risks of fraud and error

1.226 The pandemic response highlighted the importance of a risk-based approach to counter fraud activity and the necessity of increasing the understanding of fraud risk to government schemes and where the potential for widespread fraud could present itself. The Counter Fraud Centre of Expertise worked with departments to

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

establish a Global Fraud Risk Assessment - highlighting the highest risk Covid-19 stimulus schemes and the need for in-depth fraud risk assessments in these areas.

1.227 Government departments also undertook Post Event Assurance on their stimulus schemes. The aim of this was to understand the risks within each of the schemes as well as to support and review Fraud Measurement Activity to establish the levels of fraud likely to have occurred. Early information published by departments and public bodies shows that the level of fraud and error in pandemic related spending in 2020-21 is likely to exceed £10 billion. Following a recommendation from the Public Accounts Committee, HM Treasury created a requirement for departments to make an evidence-based estimate of the extent of the level of fraud and error in the Covid-19 support schemes that they administer in their 2021-22 annual reports and accounts. Further details on the risk of fraud and error for each Covid-19 support scheme can therefore be found in the annual report and accounts of the relevant department.

Intelligence and understanding the threat

1.228 Alongside these risk assessment activities, the pandemic highlighted the benefits of sharing information across government. Government established a central intelligence team to gather information provided by the public and other sources and disseminate it to law enforcement agencies and other government departments.

1.229 Colleagues across government came together to share data in order to detect and prevent fraud within Covid-19 stimulus spending. The Counter Fraud Centre of Expertise within the Cabinet Office worked with various stakeholders to identify how data could be best utilised, including collaborating with the Department for Business, Energy and Industrial Strategy (BEIS) and the British Business Bank to establish how data could be used to create upfront fraud controls and assist in proactive detection of loans that had been obtained fraudulently.

Events since 31 March 2022

1.230 There have been a number of events that could have a bearing on the Statement of Financial Position as at 31 March 2022. These events are shown in Note 32 to the accounts.

Conrad Smewing

Accounting Officer

22 March 2024

Chapter 2

Statement of Accounting Officer's responsibilities

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

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

2.2 The account is prepared on an accruals basis and in accordance with the GRAA and the 2021-22 Government Financial Reporting Manual (FReM) which applies International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts must give a true and fair view of the whole of government's finances.

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

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

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

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

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

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

2.5 The WGA Accounting Officer is responsible for signing the WGA Governance statement. This sets out the governance framework which supports the process of preparing and publishing the consolidated accounts, in line with the responsibilities outlined above. For each individual entity consolidated into WGA, the Accounting Officer or their equivalent retains responsibility for that entity's governance arrangements, as documented through the Governance Statement for those bodies.

Chapter 3
Governance Statement

Scope of Accounting Officer's responsibility

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

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

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

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

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

3.6 In producing WGA, I must rely on the Accounting Officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process. The major risks identified from the underlying accounts are set out in Paragraphs 3.22 to 3.23. The key risks in the preparation of WGA, and any corresponding changes for 2021-22 are summarised below:

3.6.1 Failure to provide data through submission of WGA returns

A significant number of entities failed to submit consolidation data for WGA by the date on which consolidation work began, and submissions for 2021-22 were closed in order to allow submission of 2022-23 data. This is despite the submission window being kept open for over four months after the deadline facilitate the submission of further returns. This is serious issue for WGA 2021-22 that has led to a qualification again this year.

HM Treasury has worked extensively with components to prioritise timely submission of data returns for 2021-22 and future years. This engagement strategy includes pro-active engagement with component finance teams at the working level and regularly writing to Finance Directors and Section 151 Officers to emphasise the importance of timely data submissions. HM Treasury will continue to look at how we can try to minimise the impact on WGA. but there are systemic issues in local government audit that mean that this issue will continue in future years. For further details on this missing data see Note 1.3 and the Performance Report (from paragraph 1.6)

3.6.2 Quality of WGA impacted by qualifications in underlying accounts

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

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

HM Treasury carried out extensive testing of the data collection tool within OSCAR 2 before submissions opened and the data collection phase went smoothly. System capacity issues impacted some users although not significantly, and these issues were subsequently resolved. HM Treasury has taken further action in conjunction with the software supplier to improve performance, train users, and further mitigate future system capacity issues.

As well as data collection, HM Treasury uses OSCAR 2 to help produce the WGA financial statements. OSCAR 2 did not impact on the preparation of WGA 2021-22 as HM Treasury worked closely with the software supplier to ensure that any issues resolved during previous accounts preparation phases did not reoccur. There is now a well-established process to resolve defects as they arise and implement changes requested by HM Treasury.

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

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

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

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

3.7 The WGA governance framework has been in place for the year ended 31 March 2022 which this account reports on and the full period of account preparation up to the date of approval. The governance framework accords with HM Treasury guidance, including the 'Corporate Governance in Central Government: Code of Good Practice', to the extent that it applies to WGA.

The WGA governance framework

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

- The **HM Treasury Group Audit and Risk Committee**, chaired by a non-executive member and supported by the Treasury's internal audit function, reviews the department's approach to internal control and provides independent advice, with oversight of financial reporting and risk management activities associated with WGA.

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

How WGA is prepared

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

Data collection

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

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

3.12 The format of financial statements varies across the UK public sector. In order to be consolidated into WGA, entities have to provide audited data in a standardised format using a data collection tool provided by the Treasury. The data collection tool covers the whole of an entity's group. For WGA 2021-22, 699 data collection returns were requested, of which 523 returns were received.

3.13 Not every entity in the public sector is consolidated into WGA. The largest entity which is excluded is NatWest. Paragraph 3.23 explains how this leads to a qualification of the auditor's opinion. In addition to

NatWest, very small stand-alone entities (below £30 million) are not consolidated and the Treasury publishes a list of these entities alongside WGA on gov.uk. Finally, there are some entities which are part of the public sector but are not answerable to the Executive function of government that are also excluded from WGA. These include entities such as the Crown Estate and the NAO. The Treasury also publishes a list of these entities alongside WGA on gov.uk.

Adjustments and eliminations

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

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

3.16 As part of the WGA preparation process, the Treasury reviews and adjusts transactions between WGA entities until the difference in what is reported by entities (known as the 'eliminations error') is at an acceptable level. For the 2021-22 WGA the final elimination error in the Statement of Financial Position is £2.0 billion (2020-21: £2.2 billion) and in the Statement of Revenue and Expenditure, £2.4 billion (2020-21: £2.5 billion).

Analytical review

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

How WGA is being used

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

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

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

Qualifications

3.20 The 2021-22 WGA audit opinion has been qualified as a result of qualifications in underlying accounts and as a result of issues relating to the boundary, non-coterminous year ends and accounting policies applied by the Treasury when carrying out the WGA consolidation.

Qualifications in underlying accounts

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

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

- The **Department of Health and Social Care** (DHSC) is unable to access, at any given point in time, personal protective equipment (PPE) inventory that is stored in sealed containers, and does not have a single integrated inventory management system that provides automated linkage between its purchasing records and the inventory present in the storage network. The combination of these factors meant that DHSC's auditors could not view and therefore verify the existence of a significant proportion of the PPE inventory held, and sufficient alternative evidence was not available. The Comptroller & Auditor-General therefore qualified his opinion on the DHSC accounts on the basis of lack of records in respect of inventory. Similarly, the Comptroller & Auditor-General was unable to obtain sufficient assurance in respect of the existence and valuation of DHSC's accruals and so qualified his opinion due to insufficient evidence available to demonstrate this area was free from material misstatement. The audit opinion on the DHSC accounts was also qualified because the UK Health Security Agency (UKHSA) was not able to provide evidence to support transactions and balances recorded in its 2021-22 financial statements. This led the Comptroller & Auditor-General to issue a disclaimer on the UKHSA 2021-22 accounts, and limit the scope of his opinion in respect of these UKHSA transactions and balances recorded in the DHSC accounts.

Qualifications from the consolidation process

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

- A qualification due to the **number of bodies for which consolidation data was requested but not received**. As a result, these bodies are not consolidated into WGA 2021-212 The majority of missing entities are English local government bodies. As noted above, this is a matter I am taking very seriously. Note 1 to the accounts provides further details. This was a new qualification in 2020-21.
- The **boundary qualification** arises as a result of WGA making a conscious policy choice to exclude certain bodies from the consolidation. The largest of the bodies to be excluded is NatWest. The scale and nature of NatWest's activities would distort the picture of UK finances. This qualification will remain as long as NatWest is in public ownership.
- The qualification on **inconsistent accounting policies** mainly relates to different methods used in valuing infrastructure assets. The largest difference remaining is the valuation of the local authority road network which will remain as a qualification in the medium term. The different method used to value infrastructure assets held by the Environment Agency also contributes to this qualification.
- The **non-coterminous year ends** qualification mainly relates to the inclusion of academy schools which have a year end of 31 August, as opposed to the 31 March date used by WGA.
- The qualification on **consolidation of components whose accounts have not been audited** relates to the consolidation of draft accounts data for a number of local authorities whose statutory audits have not yet concluded. This qualification particularly relates to property, plant and equipment valuations. In the absence of a component audit opinion, NAO were unable to obtain sufficient assurance that the valuations of these assets are materially correct.

This was a new qualification in 2019-20 and was the result of delays in local authority audits.

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

WGA and the Academies sector

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

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

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

3.28 The balance as at 31 August 2020 was £59.7 billion and this was included in the 2020-21 WGA. We now know that the 31 August 2021 balance was £62.4 billion (which has been included in this 2021-22 WGA) and that the balance as at 31 March 2021 is likely to be in between those two figures, giving an estimated maximum error of £2.7 billion on this year's figure. In a similar manner we can estimate the maximum error for other balance sheet items at 31 March 2021 and 31 March 2022.

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

Comparing balance sheet positions – 31 March 2021

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

Source: SARA 2021

Comparing balance sheet positions – 31 March 2022

Item (£bn)	SARA balance 31 August 2022 (will be included in the 2022-23 WGA)	SARA balance 31 August 2021 (included in the 2021-22 WGA)	Estimated Maximum amount of variance between 31 August and 31 March.
Property plant and equipment	65.9	62.4	3.5
Cash and cash equivalents	6.7	5.9	n/k
Other assets	2.1	1.8	0.3
Pension liability	(3.4)	(17.9)	14.5
Other liabilities	(3.4)	(2.9)	(0.5)

Source: SARA 2022

Balancing timeliness, quality and cost effectiveness of data

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

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

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

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

3.33 I have made a similar judgement regarding the balance between timeliness and quality when considering the cut-off point for data collection. In order to meet the agreed publication timetable for WGA 2021-22 and future years, it was necessary to close data collection for the 2021-22 period so that accounts preparation work could be carried out in the most efficient manner with a stable dataset. Closing data collection for 2021-22 also allowed data collection for 2022-23 to take place while the 2021-22 accounts were being prepared. This will allow preparation of WGA 2022-23 to begin shortly after publication of WGA 2021-22. Extending the data collection period for WGA 2021-22 would potentially have increased the number of bodies submitting data, or replacing their initial draft returns with audited data, thereby increasing the coverage and quality of data consolidated within WGA. However, doing so would delay publication of WGA 2021-22 and future years.

Assurance in making this judgement

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

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

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

Information and data handling

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

Disclosure of information to auditors

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

3.39 I confirm that this annual report and accounts 2021-22 is, as a whole, fair, balanced and understandable. I take personal responsibility for the annual report and accounts, including the judgements required for determining that it is fair, balanced and understandable.

Conrad Smewing

Accounting Officer

22 March 2024

Chapter 4

Financial Statements

Statement of Revenue and Expenditure

For the year ended 31 March 2022

	Note	2021-22 £bn	2020-21 £bn
Taxation revenue	4	(774.7)	(650.7)
Other revenue	5	(106.9)	(80.8)
Total public services revenue		**(881.6)**	**(731.5)**
Social security benefits	6	259.7	258.4
Staff costs	7	284.5	253.5
Purchase of goods and services	8	256.2	238.7
Grants and subsidies	9	121.0	197.2
Depreciation and impairment	10	47.9	61.9
Interest costs on government borrowing	11	47.1	21.2
Increase/(decrease) in provisions	22	28.0	32.1
Total expenditure on public services		**1,044.4**	**1,063.0**
Net expenditure on public services		**162.8**	**331.5**
Financing costs of long-term liabilities, including discounting	11	197.2	55.7
Revaluation of financial assets and liabilities		(0.4)	17.2
Net (income)/expenditure for the year		**359.6**	**404.4**

Statement of Comprehensive Income and Expenditure

For the year ended 31 March 2022

	2021-22 £bn	2020-21 £bn
Net (income)/expenditure for the year	359.6	404.4
Other comprehensive income and expenditure:		
Net (gain)/loss on:		
Revaluation of property, plant and equipment	(77.8)	(23.0)
Revaluation of intangible assets	0.3	(0.4)
Revaluation of assets measured at Fair Value through Other Comprehensive Income	(1.2)	(6.2)
Revaluation of pension scheme liabilities	130.1	217.2
Other comprehensive (income)/ and expenditure	51.4	187.6
Total comprehensive (income)/ expenditure for the year	**411.0**	**592.0**

Statement of Financial Position

As at 31 March 2022

	Note	2021-22 £bn	2020-21 £bn
Non-current assets			
Property, plant and equipment	12	1,340.4	1,270.3
Investment properties	13	14.8	16.5
Intangible assets	14	43.7	41.0
Trade and other receivables	15	22.4	20.6
Other financial assets	16	456.9	340.8
		1,878.2	**1,689.2**
Current assets			
Inventories	17	13.5	15.3
Trade and other receivables	15	193.2	182.3
Other financial assets	16	267.9	264.9
Cash and cash equivalents	18	45.6	39.6
Gold holdings	33	14.7	12.3
Assets held for sale		1.2	3.1
		536.1	**517.5**
Total assets		**2,414.3**	**2,206.7**
Current liabilities			
Trade and other payables	19	(160.8)	(169.3)
Government borrowings	20	(340.0)	(274.0)
Other financial liabilities	21	(1,030.4)	(943.3)
Provisions	22	(29.7)	(28.4)
		(1,560.9)	**(1,415.0)**
Non-current liabilities			
Trade and other payables	19	(51.8)	(52.0)
Government borrowings	20	(1,235.7)	(1,246.3)
Other financial liabilities	21	(303.6)	(175.5)
Provisions	22	(498.1)	(338.0)
Net public sector pension liability	24	(2,639.1)	(2,306.2)
Total non-current liabilities		**(4,728.3)**	**(4,118.0)**

Total liabilities	**(6,289.2)**	**(5,533.0)**
Net liabilities	**(3,874.9)**	**(3,326.3)**
Financed by taxpayers' equity:		
General reserve	(4,547.6)	(3,932.3)
Revaluation reserve	667.8	601.8
Other reserves	4.9	4.2
Total liabilities to be funded by future revenues	**(3,874.9)**	**(3,326.3)**

The financial statements and supporting notes on pages 121-259 and Annex A form part of these accounts.

Conrad Smewing

Accounting Officer

22 March 2024

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2022

	General reserve	Revaluation reserve	Other reserves	Total
	£bn	£bn	£bn	£bn
At 1 April 2020	**(3,436.1)**	**597.3**	**4.6**	**(2,834.2)**
Restatements	0.4	-	-	0.4
Impact on opening balances – missing entities	94.7	(20.2)	(0.2)	74.3
Net income /(expenditure) for the year ended 31 March 2021	(404.4)	-	-	(404.4)
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	23.0	-	23.0
Revaluation of intangible assets	-	0.4	-	0.4
Revaluation of assets measured at Fair Value through Other Comprehensive Income	-	6.2	-	6.2
Revaluation of pension scheme liabilities	(217.2)	-	-	(217.2)
Other reserves movements including transfers	30.3	(4.9)	(0.2)	25.2
Balance at 31 March 2021	**(3,932.3)**	**601.8**	**4.2**	**(3,326.3)**
Restatements	(2.2)	(0.7)	-	(2.9)
Impact on opening balances – missing entities	(133.5)	(9.2)	-	(142.7)
Net income/(expenditure) for the year ended 31 March 2022	(359.6)	-	-	(359.6)
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	77.8	-	77.8

Revaluation of intangible assets	-	(0.3)	-	(0.3)
Revaluation of assets measured at Fair Value through Other Comprehensive Income	-	1.2	-	1.2
Revaluation of pension scheme liabilities	(130.1)	-	-	(130.1)
Other reserves movements including transfers	10.1	(2.8)	0.7	8.0
Balance at 31 March 2022	**(4,547.6)**	**667.8**	**4.9**	**(3,874.9)**

Statement of Cash Flows

For the year ended 31 March 2022

	Note	2021-22 £bn	2020-21 £bn
Cash flows from operating activities:			
Net operating expenditure for public services	SoRE	(162.8)	(331.5)
Adjustments for non-cash transactions		169.5	172.9
Impact of missing entities (boundary adjustment)		34.0	89.3
Adjustment for non-operating transactions		46.2	5.7
(Increase)/decrease in inventories	17	(1.4)	(14.3)
(Increase)/decrease in trade and other receivables	15	(12.7)	(20.9)
Increase/(decrease) in trade and other payables	19	(8.7)	20.2
Net cash movement for the provision of pensions		2.4	(51.4)
Use of provisions	22	(25.2)	(25.3)
Net cash inflow/(outflow) from operating activities		**41.3**	**(155.3)**
Cash flows from capital expenditure and financial investment:			
Purchase of non-financial assets		(69.3)	(64.4)
Interest received	5	5.9	6.4
Proceeds from disposal of non-financial assets		3.0	3.2
Net cash inflow/(outflow) from purchase and disposal of financial assets and liabilities		(109.1)	(262.3)
Net cash inflow/(outflow) from capital expenditure and financial investment		**(169.5)**	**(317.1)**
Cash flows from financing activities:			
Financing costs of long-term liabilities		(45.6)	(45.6)
Finance charges paid on finance leases and PFI contracts		(3.9)	(3.7)

Net Borrowings		183.7	523.7
Net cash inflow/(outflow) from financing activities		**134.2**	**474.4**
Net increase/(decrease) in cash and cash equivalents	18	6.0	2.0
Cash and cash equivalents at the beginning of the year	18	39.6	37.6
Cash and cash equivalents at the end of the year	18	**45.6**	**39.6**

Notes to the accounts

Note 1. Statement of accounting policies

1.1 Basis of preparation

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

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

1.2 Accounting convention

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

1.3 Basis of consolidation

The GRAA requires WGA to consolidate a group of entities that appear to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. The FReM adapts IFRS in order to comply with this statutory requirement and specifies that the WGA consolidation boundary should be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics (ONS).

Bodies classified to the public sector by the ONS include:

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

There are areas where the boundary diverges from the ONS classification, most significantly the exclusion of NatWest (previously known as RBS), and further details are provided in the critical accounting estimates and judgements in Note 2.

WGA also does not include minor bodies (those with assets, liabilities, income and expenditure all less than £30 million), and a small number of non-government entities that report directly to Parliament, such as the National Audit Office. These bodies are listed in Annexes 2 and 3, published alongside WGA on gov.uk.

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

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

In 2019-20, 21 bodies, all of which were local authorities, did not submit consolidation data. For WGA 2020-21, 155 bodies did not submit data for consolidation, of which 128 were local authorities. This was a substantial omission of data and caused a significant difference between balances at 31 March 2020 and the consolidated balances at 1 April 2020 of those bodies which submitted data for 2020-21. The difference between these two sets of figures was presented as an opening balance adjustment line in the SOCTE and a boundary adjustment line in those notes to the financial statements where a 1 April 2020 balance is shown. The adjustment shown on the SOCTE was £74.3 billion, which represents the total net assets and net liabilities of bodies moving into and out of the WGA consolidation. The equivalent figure for 2019-20 was £2.2 billion, presented within other reserves movements.

For WGA 2021-22, 178 bodies did not submit data for consolidation, with 157 of those being local authorities. 27 bodies did not submit in 2020-21 but then returned data for 2021-22, however 52 submitted in 2020-21 but not in 2021-22. This increased omission of data causes a significant difference between balances at 31 March 2021 and the consolidated balances at 1 April 2021 of those bodies which submitted 2021-22 data.

The difference is again presented as an adjustment line in the SOCTE and in those notes to the financial statements where a 1 April 2021 balance is shown. The adjustment shown on the SOCTE is £142.7 billion, which again represents the total net assets and net liabilities of bodies moving into and out of the WGA consolidation. For notes which present totals as at 31 March 2020 and 2021, material variances due to this missing data are discussed in the note narrative.

Three annexes are published alongside WGA on gov.uk, which list the entities consolidated into WGA 2021-22 and also those which are within the WGA boundary but not consolidated in 2021-22:

- Annex 1: list of entities consolidated in the WGA
- Annex 2: entities that are not consolidated in the WGA. This annex includes non-government entities which report directly to Parliament, and those entities which did not submit consolidation data in 2021-22
- Annex 3: minor bodies excluded from the consolidation. This annex provides details of small bodies not consolidated due to their size

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

1.4 Accounting standards in issue but not yet effective

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

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

The FReM includes an adaptation allowing entities to early adopt IFRS 16 in 2019-20 where certain conditions are met, subject to approval by HM Treasury. The Department for Digital, Culture, Media and Sport and Department for Transport used this adaptation to early adopt in 2019-20. Transport for London and the BBC are the two other significant entities which adopted IFRS 16 in 2019-20, as they do not follow the FReM. The FReM allows early adoption of IFRS 16 from 2021-22 where approval has been received from the relevant authority. The Ministry of Justice, Department for Business, Energy and Industrial Strategy, HM Land Registry and Crown Prosecution Service adopted IFRS 16 from that date. A WGA consolidation adjustment removes the effect of these and other entities' transition to IFRS 16 and WGA is presented on an IAS 17 basis.

In the local government sector adoption of IFRS 16 has been deferred until 2024-25, with early adoption allowed in 2022-23 or 2023-24. As a result, when WGA adopts IFRS 16 in 2022-23 there will be inconsistent application of this accounting policy as many components in the local government sector will still be reporting under IAS 17 and will not have assessed the impact for them of transition to IFRS 16.

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The adoption of IFRS 16 will result in an increase in right-of-use assets and reported liabilities (representing the obligation to make future lease payments).

The impact of transition to IFRS 16 has been estimated based on data submitted by components for WGA 2022-23. This will overstate the impact of transition, as it does not include the effect of consolidation adjustments. The figures may be understated where entities have not submitted returns in 2022-23.

The assets and liabilities recognised in WGA are estimated for the 2022-23 financial year as:

	£bn
Total right of use assets	29.8
Total lease liabilities (IFRS 16)	(23.1)
Impact on reserves	**6.7**

IFRS 17 'Insurance Contracts' was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023. It will be adopted by central government bodies from 2025-26, and therefore WGA will adopt IFRS 17 in 2025-26. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. It is not possible at this time to quantify the impact of IFRS 17 on WGA, as this will be dependent on choices made on the scope and applicability of the standard to the public sector, and work done within individual entities to assess the impact on their own business.

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

1.5 Foreign Currency

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

1.6 Revenue

Taxes and duties

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

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

Taxable events for material tax streams are as follows:

Revenue type	Revenue recognition point
Income tax	Earning of assessable income during the taxation period
Social security	Earning of income on which National Insurance is payable
Corporation tax	Earning of assessable profit during the taxation period
Value Added Tax	Undertaking of taxable activity during the taxation period

Other excise duties	Date of production, date of import or movement of goods out of a duty suspended regime
Stamp duty	When property or shares are purchased
Council Tax	Residency in, or ownership or tenancy of, a chargeable dwelling for any period in the financial year
National Non-Domestic Rates	Occupation or ownership of a relevant non-domestic property for any period in the financial year

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

Amounts collected on behalf of the EU

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

Other revenue

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

1.7 Expenditure

Social security benefits

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

Staff costs

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

Grants and subsidies

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

Interest costs

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

1.8 Property, plant and equipment

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

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

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

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

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

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

1.9 Investment properties

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

1.10 Intangible assets

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

1.11 Depreciation and amortisation

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

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

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

Intangible assets are usually amortised over the following timescales:

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

1.12 Inventories

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

1.13 Cash and cash equivalents

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

1.14 Gold holdings

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

1.15 Trade and other receivables

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

1.16 Leases

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

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

The Ministry of Defence has not applied IFRIC 4 ‘Determining whether an Arrangement Contains a Lease’ to all its contracts. The MOD believes there are a number of contracts that should be accounted for as leases, but although it does not have accurate information to enable it to do so they are estimated to be immaterial to WGA.

1.17 Private Finance Initiatives (PFI)

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

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

Several WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these off-balance sheet contracts in their accounts in different ways in 2021-22, as the accounting standards allow flexibility as to how to present the information.

1.18 Provisions

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

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

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

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

1.19 Pension liabilities

The pension liability relates to public sector pension liabilities for current and former government employees, plus a small component for other approved organisations that qualify for membership of these government schemes. The government operates both defined benefit and defined contribution pension schemes. The defined benefit pension schemes are either funded (meaning that the scheme receives contributions and invests them to fund pension payments) or unfunded (meaning that contributions are not held in a separate fund and the government is directly liable to fund pension payments as they fall due). The pension liability excludes the state pension paid to the general public which is included within overall expenditure and recorded as welfare spend. The future liability to pay state pension is not recognised in the accounts, because the expenditure is reported to match the period of entitlement.

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

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

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

The gains and losses on revaluation reflect three elements:

- the change in the underlying assumptions used by the actuaries to determine the value of scheme liabilities. This includes changes in the assumptions such as financial assumptions, mortality rates and projected salary increases

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

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

1.20 Financial instruments

Financial assets

Financial assets are categorised as one of the following:

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

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

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

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

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

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

IFRS 9 impairment requirements for financial assets apply to:

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

Financial liabilities

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

1.21 Contingent liabilities and contingent assets

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

1.22 Events after the reporting period

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

Note 2. Critical accounting estimates and judgements

2.1 WGA boundary

The Government Resources and Accounts Act (GRAA) 2000 requires WGA to consolidate a group of entities that appear to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. The FReM adapts IFRS in order to comply with this statutory requirement and specifies that the WGA consolidation boundary should be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics (ONS).

In applying this policy, HM Treasury has made a judgement to exclude certain bodies which the ONS classifies to the public sector from the WGA consolidation. These exceptions are:

- WGA excludes a small number of entities such as the National Audit Office, Crown Estate and Audit Scotland that are accountable to their respective parliaments or assemblies rather than to an executive arm of the government, and therefore do not form part of government. The total impact of excluding these bodies from WGA is estimated to be £1.6 billion of gross expenditure and £20.0 billion of net assets. Some of these amounts would be eliminated on consolidation. £16.5 billion of the net assets not included in WGA are owned by the Crown Estate.
- Minor entities are excluded on the basis that they are too small to have any material impact on WGA. The criteria used for minor bodies in 2021-22 was that they had to have gross expenditure, income, assets and liabilities of less than £30 million. For example, this includes some district councils. The total impact of excluding minor bodies is estimated to be £0.8 billion of gross expenditure and £0.2 billion of net assets. Some of these amounts would be eliminated on consolidation.

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

NatWest

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

The table below sets out the estimated effect of excluding NatWest from the consolidation. It is based on NatWest's financial results for the year ended 31 December 2021. It does not include an estimate of the changes required to align the year end or accounting policies.

	2021-22 WGA £bn	2021 NatWest £bn	Eliminations £bn	WGA plus NatWest £bn
Revenue	881.6	12.8	(2.7)	891.7
Expenditure	(1, 044.4)	(9.7)	2.1	(1,052.0)
Net Expenditure	**(162.8)**	**3.1**	**(0.6)**	**(160.3)**
Assets	2,414.3	782.0	(179.4)	3,016.9
Liabilities	(6,289.2)	(740.2)	168.0	(6,861.4)
Net Assets / (Liabilities)	**(3,874.9)**	**41.8**	**(11.4)**	**(3,844.5)**

2.2 Effects of the Covid-19 pandemic

2.2.1 Inventory impairments relating to personal protective equipment

During 2020-21 the Department of Health and Social Care (DHSC) made significant judgements in relation to the impairment of inventories. These impacted the inventories balance at 1 April 2021 and impairment charge for the 2020-21 comparative period. The impairment for items assessed as not being suitable either for their original intended purpose or for any use was calculated at weighted average cost.

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

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

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

Similar judgements were made at 31 March 2022 but these did not result in a significant impairment to inventory.

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

The liabilities for the Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS) are subject to significant estimation uncertainty relating primarily to estimates of probability of default of the underlying loans and recoveries from borrowers post-claim. There is an absence of information relating to historical loan performance for these new schemes, uncertainty over forward macroeconomic conditions, absence of repayment data for analysis of performance on existing loans as at 31 March 2022 due to immaterial loan repayments during the reporting period; and, for BBLS, uncertainty in relation to levels of fraudulent borrowing.

2.3 Taxation revenue

Taxation revenue is recognised in the period in which the event that generates the revenue occurs. Some of the accrued revenue receivable figures and other items are subject to statistical estimation of forecasts, as tax returns and tax payments can be filed later. Due to the areas of uncertainty involved, actual outcomes could differ from the estimates used. HM Revenue and Customs (HMRC) noted that, at the time of publication of their 2021-22 Annual Report and Accounts, the full impact of Covid-19 on accrued tax revenue was unknown which increased the level of uncertainty within their estimations. Each year HMRC reviews the performance of its estimation models. In 2020-21, the Accrued Revenue Receivable (ARR) underestimation was £11.1 billion (1.8% of that year's total revenue) and the Accrued Revenue Payable (ARP) underestimation was £0.9 billion (0.1% of 2020-21 total revenue). HMRC’s 2022-23 Annual Report and Accounts discloses that for 2021-22 the ARR underestimation was £4.6 billion (0.6% of total revenue for that year) and the ARP underestimation was £0.1 billion (0.01% of total revenue for 2020-21).

2.4 Valuation of infrastructure assets

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

Road network assets held by local authorities are currently held at historical cost less depreciation, which is different from the valuation basis used by central government. Local authorities investigated a valuation based on replacement cost less deprecation. The accounting framework for local authorities is set by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA are considering the approach to be taken for the valuation of infrastructure assets in local government, and whilst this is underway, local authority infrastructure assets remain valued at historical cost less depreciation.

The best proxy currently available for depreciated replacement cost is the calculated asset value used by the ONS in the National Accounts. The National Accounts estimated the value of local government networked assets at £159.0 billion (2020-21: £149.9 billion restated) as at 31 December 2021. Infrastructure assets are likely to be understated by at least £94.7 billion. The ONS figure excludes land, and therefore the total error is likely to be larger than the figure stated. Further information regarding this departure from the FReM can also be found in Chapter 3.

Rail network

The strategic rail network owned by Network Rail is valued using a complex model. As at 31 March 2022 this asset is valued at £365.5 billion (2020-21: £336.8 billion). The following sensitivity analysis reflects the sources of estimation uncertainty, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

Remaining asset lives: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	Change %
Decrease by 10%	340.0	(25.5)	(7%)
Base assumptions	365.5	N/A	N/A
Increase by 10%	391.1	25.6	7%

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

Land compensation adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	Change %
Decrease by 10pp (to 59%)	359.2	(6.3)	(2%)
Base assumption (69%)	365.5	N/A	N/A
Increase by 10pp (to 79%)	371.9	6.4	2%

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

Greenfield site adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10pp (to 22%)	369.8	4.3	1%
Base assumption (32%)	365.5	N/A	N/A
Increase by 10pp (to 42%)	361.3	(4.2)	(1%)

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

Risk factor adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10pp (to 12%)	344.7	(20.8)	(6%)
Base assumption (22%)	365.5	N/A	N/A
Increase by 10pp (to 32%)	386.4	20.9	6%

Strategic road network

The strategic road network owned by Highways England is valued using a complex model. As at 31 March 2022 this asset is valued at £146.0billion (2020-21: £134.6 billion).

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

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

Costing rates: sensitivity to change	Depreciated Replacement Cost £bn	Change	
		£bn	%
Decrease by 10%	132.1	(13.9)	(10%)
Base assumptions	146.0	N/A	N/A
Increase by 10%	159.9	13.9	10%

Sensitivity to Highways England Capital Enhancement Cost Index (HECI)	Depreciated Replacement Cost £bn	Change	
		£bn	%
Base case	146.0	N/A	N/A
Increase by 10 points	157.5	11.5	8%

2.5 Financial assets

Student loans

Due to the implementation of IFRS 9, student loans are carried at fair value through profit or loss (FVTPL). The FReM requires that where future cash flows are discounted to measure fair value, the higher of the rate intrinsic to the financial instrument or HMT's current discount rate should be used. The discount rate used to discount expected cash flows to calculate the fair value of student loans is the intrinsic rate of the loan for Master's loans, and HMT's standard cross-government discount rate of RPI-1.1% (2020-21: RPI+0.7%) for the remainder of the loan books, as required by the FReM interpretation of IFRS 9.

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

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

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

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

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

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

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

2.6 Public sector pension liability

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

The key financial assumptions used by the actuaries of government pension schemes to determine 2021-22 and 2020-21 WGA pension liabilities are set out below:

	2021-22		
	Unfunded central government %	Unfunded local government %	Funded local government %
Rate of increase in salaries	4.15	3.20-4.80	2.00-4.90
Rate of increase of Pensions in Payment	2.90	2.85-3.60	1.95-3.50
Discount rate: real	(1.30)		
Discount rate: nominal	1.55	2.60-2.80	2.00-2.80
Price inflation assumption	2.90	2.70-4.50	2.60-4.00

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

2.7 Provision for nuclear decommissioning

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

The estimate is necessarily based on assumptions regarding processes and methods likely to be used to discharge the obligations, reflecting a combination of latest available technical knowledge, requirements of the existing regulatory regime, government policy and commercial agreements. Given the very long timescale involved and the complexity of the plants and material being handled, considerable uncertainty remains in the estimates of future costs, particularly in later years. The estimate is updated to reflect changed circumstances and more recent knowledge and changed assumptions; as a result, material adjustments could be made to the carrying amount of the nuclear decommissioning provision and related assets and liabilities in the future. The principal assumptions and sensitivities around the cost estimates were reviewed and updated by NDA management as at 31 March 2022.

Sensitivity analysis

	% Change	Provision (£bn)
Increase in discount rate	0.5%	195
Decrease in discount rate	0.5%	293

Four different discount rates are used, according to the expected timing of cashflows (from short-term to very long-term), see Note 22 for details for the rates used each year. The change in discount rates in 2021-22 produced an increase of £84.0 billion (2020-21: £0.7 billion decrease). This figure excludes the change relating to inflation plus the recoverable contract costs off-setting balance which otherwise result in an increase of £6.0 billion (2020-21: £0.2 billion decrease).

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

	Sellafield	Magnox	Waste	Transport	2021-22 Total	2020-21 Total
	£bn	£bn	£bn	£bn	£bn	£bn
Up to 1 year	2.3	0.8	0.2	0.0	3.3	3.1
2 to 5 years	11.1	3.3	0.8	0.0	15.2	14.3
6 to 20 years	38.3	10.9	5.1	0.1	54.4	42.9
21 to 50 years	56.7	14.9	5.8	0.0	77.4	44.9
50 years +	68.2	4.5	14.0	0.0	86.7	30.5
	176.6	**34.4**	**25.9**	**0.1**	**237.0**	**135.7**
Deduction in respect of Site Licence Companies pension receivable from NDA					(0.2)	(0.6)
Total NDA Decommissioning Provisions					**236.8**	**135.1**

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

Sensitivity	Sellafield £bn	Magnox £bn	Waste £bn	Transport £bn	2021-22 Total £bn	2020-21 Total £bn
Increase	187.2	3.4	55.1	0.0	245.7	109.3
Reduction	(31.2)	(3.6)	(9.1)	(0.0)	(43.9)	(20.1)

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

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

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

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

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

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

2.8 Provision for clinical negligence

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

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

The value of the provision is sensitive to changes in discount rates, and a sensitivity analysis is provided below (source: Department of Health and Social Care Annual Report and Accounts 2021-22).

Discount rates (all terms): sensitivity to change	**Estimated IBNR provision**	**Change to original IBNR estimate**	
	£bn	**£bn**	**%**
All rates -1 percentage point	87.4	25.4	41%
Base assumptions	62.0	N/A	N/A
All rates +1 percentage point	45.8	(16.2)	(26%)

Other key sensitivities are claims value inflation, average costs of claim and the probability of a successfully defended claim. A sensitivity analysis of these is shown below (source: Department of Health and Social Care Annual Report and Accounts 2021-22).

Claims value inflation: sensitivity to change	**Estimated IBNR provision**	**Change to original IBNR estimate**	
	£bn	**£bn**	**%**
All rates -1 percentage point	55.0	(7.0)	(11%)
Base assumptions	62.0	N/A	N/A
All rates +1 percentage point	70.2	8.2	13%

Probability of a successfully defended claim: sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
All probabilities -5 percentage points	56.5	(5.5)	(9%)
Base assumptions	62.0	N/A	N/A
All probabilities +5 percentage points	67.5	5.5	9%

Average costs of claim: sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
Reduction in average claim values of 20%	50.1	(11.9)	(19%)
Base assumptions	62.0	N/A	N/A
Increase in average claim values of 20%	73.9	11.9	19%

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

2.9 Provisions related to the EU financial settlement

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

The UK obligation in respect of EU pensions is estimated on the basis of full membership data supplied by the EU as at 31 December 2020, projecting forward salary to the assumed date of exit, and applying the UK post 2020 financing share to end 2020 EU pension obligations, adjusting for the difference in discount rates used in EU accounts and those required under the FReM. The accounting valuations for the pension related liabilities are sensitive to actuarial assumptions (e.g. life expectancy, inflation, retirement age) for defined benefit pension obligations.

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

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

The obligation in respect of the RAL is estimated based on information in EU Budgets adopted on or before 31 March 2022 and associated budget implementation data. The post 2020 financing share is applied to commitments in EU Budgets up to 2020 and adjusted for forecast implementation rates (based on the historical level of commitments that do not lead to payments).

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

Assumption	Change	Degree of uncertainty	Sensitivity of output to changes in input	Financial impacts £bn
Exchange rate	Sterling appreciation of 1%	High	Moderate	Decrease of 0.3
Decommitments	Increase of 1 percentage point	High	Moderate	Increase of 0.2
Discount rate	Increase of 0.1 percentage point	Moderate	Moderate	Increase of 0.3
Salary changes	Expected increase higher by 0.1%	Moderate	Moderate	Increase of 0.3
Retirement age	1 year lower	Low	Low	Decrease of 0.1
Life expectancy	1 year higher	Low	High	Increase of 0.6

2.10 Non-coterminous year ends

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

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

- Commonwealth Development Corporation[33] – year end to 31 December
- Northern Ireland and Scottish FE colleges – year end to 31 July
- Channel 4 – year end to 31 December
- Bank of England – year end to 28 February
- National Physics Laboratory – year end to 31 December
- Post Office Ltd – year end to 27 March
- Northern Ireland Transport Holding Company – year end to 27 March
- British Nuclear Fuels – year end to 30 June

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

Academies sector

The Academies sector annual report and accounts has a year end to 31 August 2021. The account is compiled and published by the Department for Education. The Department was unable to estimate, to a material level of accuracy, the adjustments required to reflect their financial position and performance to 31 March. WGA therefore reflects the Academies sector to 31 August 2021, with no adjustments made.

The material balances impacted by this misalignment are property, plant and equipment (where academies report net book value of £62.4 billion) and pension liabilities (where academies report a pension deficit of £17.9 billion). See paragraph 3.29 of the Governance Statement in chapter 3 for estimates of the maximum amount of variance between 31 August and 31 March.

2.11 Contracts for difference (CfDs)

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

WGA includes several CfDs on the Statement of Financial Position. During 2019-20, changes to the forecast models used by BEIS meant it

[33] The Commonwealth Development Corporation changed its name to British International Investment plc on 29 March 2022.

became possible to reliably estimate the valuation of Hinkley Point C (HPC) CfD. As a result of this, BEIS considered the recognition criteria for HPC CfD to have been met, and the HPC CfD was recognised in the BEIS Annual Report and Accounts 2019-20 and subsequent years.

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

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

An additional element in the calculation of the CfD liability is the discount rate that is applied. The HM Treasury discount rate has been used for valuing financial instruments such as CfDs. This rate is based on the HM Treasury nominal rate of 1.9% adjusted by the latest OBR CPI inflation forecasts for each modelled year (2020-21: real 0.7% rate for all periods). The table below illustrates the impact of using a different rate (the social discount rate of 3.5%, as published in the HM Treasury Green Book).

	Favourable / (Unfavourable) changes		
	HPC CfD £bn	Other CfDs £bn	Total Impact £bn
Change in fair value of CfDs if:			
High Case scenario	4.7	(1.1)	3.6
Low Case scenario	(3.4)	(13.4)	(16.8)
Discount rate of 3.5%	32.5	10.2	42.7

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

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

Note 3. Segmental Reporting

Segmental reporting 2021-22

	Central government £bn	Local government £bn	Public corporations £bn	Whole of Government £bn
Taxation revenue	(725.3)	(49.3)	(0.1)	(774.7)
Other revenue	(60.5)	(33.2)	(13.2)	(106.9)
Total public services revenue	**(785.8)**	**(82.5)**	**(13.3)**	**(881.6)**
Social security benefits	245.8	13.4	0.5	259.7
Staff costs	219.7	59.2	5.6	284.5
Purchase of goods and services	173.7	72.3	10.2	256.2
Interest cost on government borrowing	47.1	-	-	47.1
Increase/(decrease) in provisions	28.2	0.5	(0.7)	28.0
Grants and subsidies	120.2	0.4	0.4	121.0
Depreciation and impairment	36.4	10.0	1.5	47.9
Total expenditure on public services	**871.1**	**155.8**	**17.5**	**1,044.4**
Net (revenue)/expenditure on public services	**85.3**	**73.3**	**4.2**	**162.8**
Financing costs of long-term liabilities, including discounting	188.7	6.9	1.6	197.2
Net loss/(gain) on revaluations and disposals of assets and liabilities	0.2	(1.0)	0.4	(0.4)
Net expenditure/(revenue) for the year	**274.2**	**79.2**	**6.2**	**359.6**
Property, plant and equipment	944.0	309.0	87.4	1,340.4
Other non-current assets	281.3	27.1	229.4	537.8
Current assets	427.7	42.7	65.7	536.1
Total assets	**1,653.0**	**378.8**	**382.5**	**2,414.3**

Current government borrowings	(340.0)	-	-	(340.0)
Other current liabilities	(308.0)	(33.9)	(879.0)	(1,220.9)
Non-current government borrowings	(1,235.7)	-	-	(1,235.7)
Provisions non-current	(468.8)	(2.1)	(27.2)	(498.1)
Net public sector pension asset/(liability)	(2,401.3)	(239.9)	2.1	(2,639.1)
Other non-current liabilities	(109.1)	(34.9)	(211.4)	(355.4)
Total liabilities	**(4,862.9)**	**(310.8)**	**(1,115.5)**	**(6,289.2)**
Net assets/(liabilities)	**(3,209.9)**	**68.0**	**(733.0)**	**(3,874.9)**

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

The overall impact of missing data on the SoRE and SoFP is analysed in the Performance Report on a line by line basis as well as detailing the number of missing returns by sector.

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

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

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

Note 7 provides a breakdown of staff numbers by sector.

Segmental reporting 2020-21

	Central government	Local government	Public corporations	Whole of Government
	£bn	£bn	£bn	£bn
Taxation revenue	(603.4)	(47.3)	-	(650.7)
Other revenue	(46.1)	(22.6)	(12.1)	(80.8)
Total public services revenue	**(649.5)**	**(69.9)**	**(12.1)**	**(731.5)**
Social security benefits	242.8	15.1	0.5	258.4
Staff costs	189.2	58.7	5.6	253.5
Purchase of goods and services	159.5	71.0	8.2	238.7
Interest cost on government borrowing	21.2	-	-	21.2
Increase/(decrease) in provisions	33.0	0.5	(1.4)	32.1
Grants and subsidies	196.3	0.5	0.4	197.2
Depreciation and impairment	48.9	11.8	1.2	61.9
Total expenditure on public services	**890.9**	**157.6**	**14.5**	**1,063.0**
Net (revenue)/expenditure on public services	**241.4**	**87.7**	**2.4**	**331.5**
Financing costs of long-term liabilities, including discounting	47.0	7.2	1.5	55.7
Net loss/(gain) on revaluations and disposals of assets and liabilities	16.5	0.4	0.3	17.2
Net expenditure/(revenue) for the year	**304.9**	**95.3**	**4.2**	**404.4**
Property, plant and equipment	863.8	319.9	86.6	1,270.3
Other non-current assets	246.9	28.1	143.9	418.9
Current assets	393.0	43.7	80.8	517.5
Total assets	**1,503.7**	**391.7**	**311.3**	**2,206.7**
Current government borrowings	(274.0)	-	-	(274.0)

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

Note 4. Taxation revenue

	2021-22 £bn	% of total	2020-21 £bn	% of total
Income tax	233.4	30%	191.9	29%
National Insurance Contributions (NIC)	142.1	18%	125.8	19%
Value added tax (VAT)	148.7	19%	122.1	19%
Corporation tax	68.3	9%	53.7	8%
Hydrocarbon oils duty	25.8	3%	21.3	3%
Excise Duty	35.3	5%	29.9	5%
Stamp taxes	19.9	3%	13.2	2%
Capital gains tax	15.8	2%	12.0	2%
Other taxes and duties	33.9	4%	31.0	5%
Central government taxation revenue	**723.2**	**93%**	**600.9**	**92%**
Council Tax	28.3	4%	30.0	5%
National Non-Domestic rates (NNDR)	23.2	3%	19.8	3%
Local government taxation revenue	**51.5**	**7%**	**49.8**	**8%**
Total taxation revenue	**774.7**	**100%**	**650.7**	**100%**

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

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £4.7 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £1.4 billion to the note this year, giving a net decrease of £3.3 billion due to missing data.

Total taxation revenue increased by about £124 billion (19.1%) in 2021-22 mainly driven by the impact of Covid-19 on the UK economy in the prior year.

Due to the uncertainty of the impact of Covid-19 on income tax self assessment, 2020-21 accrued revenue was understated by £8.0 billion. As part of the government announcement in March 2022, the government funded up to 80% of the employees' wages as part of the Coronavirus Job Retention Scheme (CJRS). As part of the Self-Employment Income Support Scheme (SEISS), the government funded 5 grants to self-employed individuals. These government funded amounts are subject to income tax; SEISS grants were taxed as income for the year in which they are received. Both schemes ended on 30 September 2021. Covid-19 support payments are recoverable as income tax if the recipient was not entitled to the amount in accordance with the scheme under which the payment was made. For the period ended 31 March 2022, Covid-19 support payments recovered via income tax totalled £67.0 million.

During 2020-21, disproportionate levels of unemployment were evident in sectors at the lower end of the pay distribution scale, such as hospitality, where **National Insurance** (NIC) thresholds are higher and **Income tax** rates are lower; this resulted in lower levels of NIC and income tax. As a result, the amount of NIC revenue collected in 2021-22 was £16.3 billion higher than in 2020-21. There was an overall increase in income tax revenue generated of £41.5 billion, a 21.6% increase from 2020-21.

Value Added Tax (VAT) is the supply of goods and services that attract VAT during the taxation period by the taxpayer. Two new opt-in online systems have been introduced from 1 July 2021: a One Stop Shop (OSS) quarterly VAT reporting and payment system for distance selling, and an Import One Stop Shop (IOSS) monthly VAT reporting and payment system for imports. Businesses not registered for OSS or IOSS will continue to use the current VAT reporting and payment system. UK VAT Mini One Stop Shop (MOSS) has now been withdrawn as part of UK Transition. The final return for the UK's VAT MOSS system was for the period ending 31 December 2020. The deadline for return amendments was 31 December 2021. The overall impact is a 21.8% increase for year-on-year VAT receipts, which equates to a £26.6 billion increase in revenue compared to 2020-21.

Corporation Tax (CT) has increased by £14.6 billion (27.2%) from 2020-21 to £68.3 billion. Due to the uncertainty of the impact of Covid-19 on CT liabilities, 2020-21 accrued revenue was underestimated by £2 billion. Covid-19 support payments are recoverable as CT if the recipient is a company and was not entitled to the amount in accordance with the scheme under which the payment was made. The amount chargeable is the amount the recipient is not entitled to. For the period ended 31 March 2022, Covid-19 support payments recovered via CT totalled £73 million.

Hydrocarbon Oils Duty rose by £4.5 billion, a 21.1% increase from 2020-21.

Excise Duty accounts for £35.3 billion, and is comprised of Alcohol, Tobacco, Vehicle, and Custom Duties. In total Excise duty increased by £5.4 billion (18.1%), unaffected by the Economic downturn.

The taxable event for **Stamp Duty Land Tax** (SDLT) is the purchase of property. For the period 8 July 2020 to 30 September 2021, the government applied temporary increases to the nil rate band for SDLT, therefore raising the threshold at which SDLT is payable for property purchases completed within that period. Overall, there was a £6.7 billion (50.8%) increase in revenue from 2020-21.

Capital gains tax increased by £3.8 billion (31.7%); the taxable event is the disposal of a chargeable asset leading to a taxable gain.

Other taxes and duties of £33.9 billion comprises Inheritance Tax, Betting and Gaming duties, Air Passenger Duty, Climate Change Levy, Bank Levy, Insurance Premium Tax, Landfill Tax, Lottery Income, Broadcast Licence fees, Digital Services Tax, Aggregates Levy, Soft Drinks Industry Levy, Diverted Profits Tax, Petroleum Revenue Tax and Apprenticeship Levy. Revenue increased by £2.9 billion (9.4%) from 2020-21.

Local government taxation revenue increased by £1.7 billion (3.4%), as **Council Tax** reduced by £1.7 billion and **National Non-Domestic Rates** increased by £3.4 billion. Revenue from missing WGA returns from local government entities amount to £4.6 billion of the overall variance; this is partly offset by £1.3 billion from returns received in 2021-22 but not in 2020-21.

The reduction of £1.7 billion for Council Tax revenue in 2021-22 compared to 2020-21 was largely driven by missing WGA returns from local government entities.

The increase of £3.4 billion for National Non-Domestic Rates in 2021-22 compared to 2020-21 was driven by £4.1 billion of payment increases to central government, whereby a smaller proportion of retained business rates were retained by local authorities through BR pilot schemes. The net impact of missing WGA returns from local government entities was £0.5 billion.

Note 5. Other revenue

	2021-22 £bn	2020-21 £bn
Revenue from contracts:		
Sales of goods and services (excluding the NHS)	26.6	19.1
Levies	4.1	6.1
Court fines and penalties	1.3	0.7
Passenger transport and income from train operating companies	5.4	4.3
Other fees and charges	7.4	5.6
Rental income	7.0	7.8
EU income	1.9	2.3
Licence income	0.5	0.5
Revenue from contracts	**54.2**	**46.4**
NHS Income:		
Sales of goods and services	3.7	3.2
NHS fees and charges (dental, prescription and other)	2.2	1.4
Other income from the NHS	1.7	2.0
NHS Income	**7.6**	**6.6**
Other income:		
Interest income	5.9	6.4
Private sector contributions to local services	3.4	3.1
Pension income	6.9	4.6
CRC allowance sales and EU emissions trading scheme	5.9	2.2
Grants from private sector	1.9	2.0
Miscellaneous operating revenue	21.1	9.5
Other Income	**45.1**	**27.8**
Total Other Revenue	**106.9**	**80.8**

Other revenue has increased overall by £26.1 billion in 2021-22. This partially reverses the £35.8 billion decrease during 2020-21 which was due to the significant impact of the Covid-19 pandemic and the related restrictions, and the impact of entities which contributed to the note's total in 2019-20 but which did not submit data in 2020-21.

The overall estimated 2021-22 impact on other revenue of non-submitting entities was £20.8 billion across the note (2020-21: £17.5 billion). This is as an estimate of the maximum impact, using the most recent submissions from those missing bodies as a proxy (from either 2020-21 or 2019-20, depending on when each entity last submitted a return). This estimate is likely to be overstated due to elements of the non-submitted data which would have been internal to the WGA, so would have eliminated. The impact on each line is outlined below, where considered significant to that line.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £8.1 billion to this note’s total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £5.8 billion to the note this year, giving a net decrease of £2.3 billion due to missing data.

Sales of goods and services had previously been largely made up of goods and services provided by local authorities (£20.2 billion out of the total of £33.1 billion in 2019-20). This figure included a wide range of goods and services, including income from schools and adult social care provision. Income related to this sector decreased significantly in 2020-21 to £7.4 billion, due to both the effect of the Covid-19 pandemic on service provision and the impact of entities which did not submit data. For 2021-22, goods and services income from local authorities increased from £7.4 billion to £12.4 billion.

£8.7 billion (2020-21: 7.7 billion) of the total is goods and services from Public Corporations, including Channel 4, Scottish Water and the Post Office. The remaining £5.5 billion (2020-21: £4.0 billion) is from central government, which includes a wide range of income streams.

At entity level there is no outstanding significant individual contribution to the increase in sales of goods and services. This illustrates the fact that the decrease in income on this line seen in 2020-21 was widespread and predominantly due to the Covid-19 pandemic. The partial recovery seen in 2021-22 is similarly widespread.

Levies of £4.1 billion (2020-21: £6.1 billion) include Capacity Market Supplier Charge income, income from the Low Carbon Contracts Company Operational Cost Levy, and the Electricity Settlements Company’s Settlement Cost Levy. Other smaller sources of levy income include the Pension Protection Fund, Financial Services Compensation Scheme, the Bank of England, and the Department for Environment, Food and Rural Affairs (DEFRA).

Passenger transport and train operating companies' income of £5.4 billion (2020-21: £4.3 billion) is predominantly made up of passenger income from the Department for Transport (DfT) of £3.0 billion (2020-21: £2.8 billion), and from Transport for London (TfL) of £2.4 billion (2020-21: £1.3 billion). The increase seen in TfL partially reverses a decrease in the previous year when the number of passenger journeys had decreased due to the Covid-19 pandemic.

Rental income of £7.0 billion (2020-21: £7.8 billion) includes rents and related costs collected from local government council tenants. £0.6 billion of the decrease on this line is due to the impact of non-submitting entities.

EU income was £1.9 billion in 2021-22, a decrease of £0.4 billion due to lower amounts received from the EU by DEFRA.

Licence income of £0.5 billion (2020-21: £0.5 billion) is largely made up of income from OFCOM. The BBC licence fee is classified as a tax in Note 4.

NHS income of £7.6 billion (2020-21: £6.6 billion) is made up of a variety of sources and increased by a net £1.0 billion. This substantially reverses the decrease of £1.5 billion seen during 2020-21, when fewer non-emergency activities were undertaken due to the Covid-19 pandemic.

Interest income of £5.9 billion (2020-21: £6.4 billion) includes interest and dividend income received from the private sector of £4.9 billion (2020-21: £5.6 billion).

Pension scheme income of £6.9 billion (2020-21: £4.6 billion) relates to employer contributions from organisations which participate in public sector pension schemes but are not themselves consolidated within the WGA boundary. Examples include GPs and charity hospices that contribute to the NHS pension scheme, and higher and further education institutions and independent teaching establishments that contributed to the Teachers' Pension Scheme. It also includes non-WGA entities such as the National Audit Office, Audit Wales and Electoral Commission that contribute to the Principal Civil Service Pension Scheme.

For 2020-21, the impact of non-submitting entities on this line could not be reliably estimated due to the impact of amounts which would be internal to WGA and therefore would have been eliminated on consolidation if they had been submitted. Our estimate of a maximum possible impact of £2.6 billion was therefore overstated due to the effect of those internal amounts and was not material to the WGA. The key bodies contributing to the pension scheme income line all submitted for 2021-22, so the impact of missing data was negligible.

Miscellaneous income has increased by £11.6 billion, from £9.5 billion in 2020-21 to £21.1 billion in 2021-22. Part of this increase reverses the £5.4 billion decrease from £14.9 billion seen in 2020-21, which was largely due to the impact of entities which did not submit any consolidation data to WGA in 2020-21. The increase seen in 2021-22 is driven by a combination of several different factors.

Note 6. Social security benefits

	2021-22 £bn	% of total	2020-21 £bn	% of total
State pension	106.8	41%	103.5	40%
Pension credit	5.1	2%	5.3	2%
Pensioner benefits	111.9	**43%**	**108.8**	**42%**
Disability Living Allowance	6.8	3%	6.9	3%
Attendance allowance	6.0	2%	6.1	3%
Personal Independence Payment	17.8	7%	16.2	6%
Carer's allowance	3.6	1%	3.6	1%
Employment and Support Allowance	13.4	5%	14.2	6%
Jobseeker's Allowance	0.5	0%	1.1	0%
Income support	0.9	0%	1.2	1%
Statutory sick pay and maternity pay	2.7	1%	2.7	1%
Universal Credit	41.3	16%	38.9	15%
Other working age benefits	1.2	0%	1.2	0%
Tax credits	22.3	9%	25.8	10%
Child Benefit	11.4	5%	11.5	4%
Housing Benefit	13.9	6%	15.5	6%
Miscellaneous benefits	6.0	2%	4.7	2%
Disability, working and other benefits	**147.8**	**57%**	**149.6**	**58%**
Total social security benefits	**259.7**	**100%**	**258.4**	**100%**

The State Pension (including New State Pension) for 2021-22, at £106.8 billion, is the largest benefit paid, accounting for 41% of the benefit spending total. State pension expenditure increased by £3.3 billion. This represents an increase of 3.2% in line with inflation, as per the "triple lock" requirement.

Disability, working and other benefits totalled £147.8 billion, a fall of £1.8 billion year-on-year. The most significant fall was a £3.5 billion reduction in tax credits to £22.3 billion, whilst Universal Credit increased by £2.4 billion to £41.3 billion. This is due to the Universal Credit campaign which encouraged Tax Credit customers to move to Universal Credit on the basis they could be financially better off and due to Tax Credits ending by 2024. Jobseeker's Allowance claims fell £0.6 billion to £0.5 billion, another outcome of the 'Move to Universal Credit' initiative. Housing Benefits also fell £1.6 billion to £13.9 billion, impacted largely by local authorities who did not submit data in 2021-22 that did in 2020-21, which totalled £2.1 billion.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £2.1 billion to this note's total last year, the majority of which related to Housing Benefits. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.7 billion to the note this year, virtually all of which was within Housing Benefits. The net decrease due to missing data was therefore £1.4 billion.

Note 7. Staff costs

	Permanently employed staff	Others	2021-22 Total	2020-21 Total
	£bn	£bn	£bn	£bn
Salaries and wages	160.8	14.8	175.6	171.0
Pension scheme costs: current service costs (net of employees' contributions)	105.5	-	105.5	78.5
Pension scheme costs: past service costs	0.5	-	0.5	0.4
Pension scheme costs: losses on settlements and curtailments	0.1	-	0.1	-
Expenditure on external pension schemes	2.8	-	2.8	3.6
Total staff costs	**269.7**	**14.8**	**284.5**	**253.5**

Overall staff costs rose by £31.0 billion in 2021-22, an increase of 12.2%.

There were a number of entities which contributed to the note total through their submissions to WGA in 2020-21, but which did not make submissions to the WGA this year. These entities contributed a total of £7.8 billion to this note's total last year.

However, there was a larger impact from entities which made contributions to the note this year but did not make submissions last year. These entities contributed a total of £9.6 billion to the note this year, with the biggest contributors being the Scottish NHS Pension Scheme (£5.0 billion) and the Scottish Teachers Pension Scheme (£2.2 billion). The net increase due to the effect of missing data was therefore 1.8 billion.

A split of staff costs by sector between central government, local government and public corporations can be found in the segmental analysis in Note 3.

Salaries and wages increased by £4.6 billion to £175.6 billion, an increase of 2.7% on the prior year. The largest single contributor to this increase was DHSC. DHSC's contribution to this note line increased by £3.4 billion in 2021-22. This increase in costs is mainly due to enhanced numbers of staff employed in the NHS, particularly amongst healthcare assistants and support staff, nursing, midwifery and health visiting staff. Please note that the increase in DHSC's contribution to WGA is slightly lower than the increase reported in their statutory accounts. This is due to the elimination of intra-group amounts in the WGA.

Overall **Pension scheme costs** increased by £26.4 billion in total, to £108.9 billion. These costs included expenses such as current service costs, past service costs, enhancements, gains or losses on settlements and curtailments.

The single largest contributor to this increase was the NHS Pension Scheme, with a year-on-year increase of £9.1 billion. This was entirely due to an increase in current year service costs, relating to a change to accounts assumptions. Increases in current year service costs were also the main reasons for pension cost increases reported by the Teachers' Pension Scheme (England and Wales) of £3.6 billion, Cabinet Office Civil Superannuation Scheme (£2.8 billion increase), and Armed Forces Retired Pay and Pensions scheme (£1.2 billion increase).

In addition to this, two pension schemes made submissions to the WGA this year which had not last year. These were the Scottish NHS Pension Scheme (£5.0 billion) and the Scottish Teachers Pension Scheme (£2.2 billion).

Further details are included in Note 24.

Average number of persons employed (Full time equivalent)

	Permanently employed staff	Others	2021-22 Total	2020-21 Total
Health sector	1,558,368	166,019	1,724,387	1,666,375
Academy schools	512,089	33,440	545,529	521,736
Northern Ireland and Scotland FE colleges	13,953	696	14,649	14,748
Other	860,663	78,383	939,046	884,317
Total Central government (including health)	**2,945,073**	**278,538**	**3,223,611**	**3,087,176**
Local government	994,543	51,461	1,046,004	1,138,648
Public corporations	82,347	28,145	110,492	111,273
Total	**4,021,963**	**358,144**	**4,380,107**	**4,337,097**

In addition to permanently employed staff, 'other' includes ministers, special advisers, temporary and contract staff. The cost of the salaries of ministers was £5.6 million (2020-21: £5.7 million) and the cost of special advisers was £9.8 million (2020-21: £9.2 million). The ministerial salary only includes the additional element on top of the basic salary of an MP.

Civil service and other compensation schemes - exit packages

Exit package cost band 2021-22 for central government and public corporations

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	2,521	4,106	6,627	-
£10,000-£50,000	1,733	3,439	5,172	0.1
£50,000-£100,000	235	1,048	1,283	0.1
>£100,000	102	373	475	0.1
Total	**4,591**	**8,966**	**13,557**	**0.3**

<£10,000 consists of £29.6 million in total costs which has been rounded down to £0.0bn.

Exit package cost band 2021-22 for local government

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£40,000	2,143	4,929	7,072	0.1
£40,000-£60,000	126	383	509	-
£60,000-£100,000	105	303	408	-
>£100,000	80	211	291	-
Total	**2,454**	**5,826**	**8,280**	**0.1**

£40,000-£60,000 consists of £25.1 million in total costs which has been rounded down to £0.0bn. £60,000-£100,000 consists of £30.0 million in total costs which has been rounded down to £0.0bn. >£100,000 consists of £45.4 million in total costs which has been rounded down to £0.0bn.

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

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

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

Exit package cost band 2020-21 for local government

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

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

Note 8. Purchase of goods, services and other expenditure

	2021-22 £bn	2020-21 £bn
Central government:		
Department of Health and Social Care	96.5	89.2
Ministry of Defence	18.6	17.0
Academies	7.4	5.8
Scottish Government	11.6	7.0
Department for Transport	5.2	4.9
Welsh Government	5.1	5.1
Ministry of Justice	3.3	3.5
Home Office	4.3	2.9
Department for Business, Energy & Industrial Strategy	2.9	3.4
Department for Education	2.2	1.9
Other*	16.6	18.8
Total Central government	**173.7**	**159.5**
Local government	**72.3**	**71.0**
Public Corporations:		
British Broadcasting Corporation	3.4	2.7
Other	6.8	5.5
Total Public Corporations	**10.2**	**8.2**
Total purchases of goods, services and other expenditure	**256.2**	**238.7**

* This comprises expenditure for 18 entities with immaterial balances individually.

Total purchases of goods, services and other expenditure increased by £17.5 billion (7.3%) in 2021-22.

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

	2021-22 £bn	2020-21 £bn
Facilities costs	6.0	6.0
Accommodation costs	14.2	11.8
Medical goods and services	73.3	65.5
ICT outsourcing and support	6.2	5.3
Travel costs	2.7	2.9
Other goods and services**	53.8	55.3
Other expenses**	67.3	62.2
Rental and PFI costs	8.3	8.1
Audit costs	0.2	0.2
Loss on disposal of assets	1.2	1.4

** Disaggregation of expenditure has not been possible due to lack of further granularity.

Central government totals increased by £14.2 billion (8.9%) in 2021-22. The main reason for the increase is the provision of supplies and services by the Department of Health and Social Care of £7.3 billion, in particular, the supply of ventilators and Personal Protective Equipment to support the Covid-19 pandemic response, donations of vaccines and NHS Test and Trace consumables.

There was a further increase of £1.6 billion by the Ministry of Defence, primarily relating to increased rental costs, research and development and travel costs. Academies also showed a £1.6 billion increase in expenditure due to building maintenance and repairs.

The Scottish Government have also shown an increase of £4.6 billion expenditure year on year due to increased spend on Covid-19 support services, notably, delivering essential support to health and social care including vaccinations and support to businesses with support grants and non-domestic rates reliefs.

Local government totals increased by £1.3 billion (1.8%) in 2021-22.

Public corporation totals increased by £2.0 billion (24.4%) in 2021-22, primarily due to an increase in programme costs of £0.7 billion incurred by the British Broadcasting Corporation.

Missing entities. There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £10.2 billion to this note's total last year, primarily in local government totals. This follows a decrease of £16.0 billion due to entities which submitted data in 2019-20 but not in 2020-21.

Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £3.3 billion to the note this year, again primarily in local government totals. The net decrease due to missing data was £6.9 billion.

Note 9. Grants and subsidies

	2021-22 £bn	2020-21 £bn
Capital grants	13.5	11.2
Current grants	103.2	169.4
EU grants	2.1	14.7
Other grants	2.2	1.9
Total grants and subsidies	**121.0**	**197.2**

There was an overall reduction in grants and subsidies of £76.2 billion.

Current grants decreased by £66.2 billion during 2021-22, driven by a reduction in the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme grants administered by HMRC. For further information on these grants, see the HMRC 2021-22 annual report and accounts.

Total current grants of £103.2 billion (2020-21: £169.4 billion) includes the following amounts, with 2021-22 and 2020-21 figures below showing all current grants, rather than focussing on individual grants:

Entity	Grant	2021-22 £bn	2020-21 £bn
HM Revenue & Customs (HMRC)	Grant payments to businesses and individuals included Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme grants as part of the government's response to the Covid-19 pandemic.	18.1	81.4
Department for Education	DfE administer further and higher education grants to colleges and universities. This covers activities such as college condition improvement, post-16 capacity funding and the Skills Teach Grant.	16.9	15.1

Department for Business, Energy and Industrial Strategy	Grants included the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF) as part of the Covid-19 Business Support Grants.	14.9	17.4
Scottish Government	The Scottish Government provides a range of grants to deliver their policies as reported in the portfolio outturn statements in their consolidated accounts. Additional grant schemes were put in place to provide support to sectors of the economy or groups of workers particularly affected by the Covid-19 pandemic.	10.8	19.8
Department for Work and Pensions (DWP)	Grants awarded to organisations included Kickstart, Household Support Fund and Access to Work schemes. DWP is also responsible for the Social Fund, which is used to make grants to individuals. This includes regulated payments of Funeral Expenses Payments, Sure Start Maternity Grants, Winter Fuel Payments, and Cold Weather Payments.	7.3	5.7
Foreign, Commonwealth and Development Office (FCDO)	Grants administered by FCDO comprise of a variety of programmes including debt relief payments and joint programme contributions.	5.0	9.3
Department for Transport	Grants included support payments to bus and light rail operators: these support costs reduced in 2021-22 during Covid-19 recovery.	5.9	10.4

EU grants decreased by £12.6 billion. Payments met by the Consolidated Fund under the EU Withdrawal Agreement Financial Settlement included custom duties on imports from outside the EU before the end of the transition period (and in 2020-21, obligations falling due before 31 March 2021, such as Budget contributions during the transition period).

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £1.3 billion to this note's total last year. There were no entities which made a contribution to the note this year but did not make a submission in 2020-21. The net decrease due to missing data was therefore £1.3 billion.

Note 10. Depreciation and impairment

	Note	2021-22 £bn	2020-21 £bn
Depreciation of property, plant and equipment	12	32.0	30.6
Amortisation of intangible assets	14	3.7	3.8
Impairments and revaluations		12.2	27.5
Total depreciation and impairment		**47.9**	**61.9**

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

The overall figure of depreciation and impairments has decreased by £14.0 billion which was largely attributed to impairments having been reduced by £15.3 billion offset by the increase in depreciation. The largest drop in impairment figures comes from the Department of Health and Social Care (DHSC) whereby £2.9 billion (2020-21: £10.8 billion) was disclosed highlighting a marked drop of £7.9 billion. This was primarily due to the majority of consumables being impaired in the previous financial year which led to a decrease in personal protective equipment (PPE), test and trace consumables, vaccines, and other equipment for Covid-19 therefore reducing the impairments made by DHSC in 2021-22. Further information is contained within the DHSC Annual Report and Accounts 2021-22 Notes 8 and 12.

The second largest decrease was from HM Revenue and Customs (HMRC) having disclosed £2.4 billion (2020-21: £6.8 billion) of impairment charges which represents a decrease of £4.4 billion. This is largely due to a decrease in VAT deferrals outstanding as at 31 March 2022 of £21.1 billion which significantly impacted the impairment charges. Further information can be found within HMRCs Annual Reports and Accounts 2021-22 Note 4.

The largest contributors to depreciation are the Department for Transport disclosing £7.5 billion (2020-21: £6.9 billion) and the Ministry of Defence disclosing £6.4 billion (2020-21: £6.0 billion). The overall depreciation total of these two entities makes up 43.4% (2020-21: 42.2%) of the total depreciation figure of £32.0 billion (2020-21: £30.6 billion) and the remainder being made up of immaterial figures across other bodies.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £0.9 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.6 billion to the note this year, giving a net decrease of £0.3 billion due to missing data.

Note 11. Finance expense

	2021-22 £bn	2020-21 £bn
Gilts	44.6	18.9
National Savings and Investment products	2.5	2.2
Treasury bills	-	0.1
Total interest costs on government borrowing	**47.1**	**21.2**

Interest costs on government borrowing

There is no impact on interest costs from entities which made data submissions in 2020-21, but which did not make a submission to the WGA this year, and also no impact from entities which submitted this year but not in 2020-21.-

In 2021-22, interest costs on government borrowings have increased by £25.9 billion (122%) to £47.1 billion. This is largely attributed to a £25.7 billion (136%) increase in interest on gilts as a result of higher financing costs.

	Note	2021-22 £bn	2020-21 £bn
Pension financing costs	24	39.0	44.2
Provision financing costs	22	149.9	4.0
Other finance expense		8.3	7.5
Total financing costs of long-term liabilities		**197.2**	**55.7**

Financing costs of long-term liabilities

Pension financing costs have decreased by £5.2 billion (12%) in 2021-22. The variance is primarily due to decreases in the expense cost for the National Health Service Pension Scheme of £2.3 billion, the Teachers'

Pension Scheme (England & Wales) of £1.8 billion, Civil Superannuation of £1.2 billion and the Armed Forces Retired Pay Pension of £1.0 billion. The variance is due to a change in actuarial assumptions. Further details can be found in Note 24. The overall reduction was however offset by the Scottish NHS Pension scheme by £1.1 billion, as a result of submitting data in 2021-22 and not in 2020-21.

Provisions financing includes the impact of changes of discount rates for provisions. In 2021-22, there was an increase in short, medium and long term discount rates that led to provisions increasing; these rates are set centrally by the Treasury based on the yield of gilts issued by the government. The Treasury changed policy on the selection of long-term discount rates for 2020-21, allowing discount rates for longer term provisions to be selected individually. Further details can be found in Note 22.

Other finance expense mostly consists of interest payable to the private sector and has increased by £0.8 billion (11%). This was largely driven by a non-cash interest charge incurred by the Department for Transport. The greater part of the increase reflects changes in the value of the Financial Guarantee Contract of £1.2 billion (2020-21: £0.1 billion).

There were a number of entities which contributed to the financing costs total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed total financing costs of £0.9 billion last year. Similarly, there were also a number of entities which made contributions to the financing costs total this year but did not make a submission in 2020-21. These entities contributed total financing costs of £2.0 billion this year, giving a net increase of £1.1 billion due to missing data.

Note 12. Property, plant and equipment

	Infrastructure assets £bn	Land and buildings £bn	Assets under construction £bn	Military equipment £bn	Other assets £bn	Total £bn
Cost or valuation:						
At 1 April 2021	917.9	463.1	87.9	83.9	115.6	1,668.4
Boundary adjustment	(6.4)	(23.5)	(0.9)	(0.1)	(4.4)	(35.3)
Restatements	(1.6)	(0.3)	-	-	(0.4)	(2.3)
Additions	12.9	10.1	33.5	0.4	5.5	62.4
Revaluations	76.3	20.3	(0.1)	4.6	0.6	101.7
Impairments	(0.1)	(4.9)	(0.9)	(0.3)	0.2	(6.0)
Reclassifications and transfers	3.2	11.3	(22.2)	3.9	3.0	(0.8)
Disposals	(0.9)	(4.6)	(0.1)	(2.6)	(5.1)	(13.3)
At 31 March 2022	**1,001.3**	**471.5**	**97.2**	**89.8**	**115.0**	**1,774.8**
Depreciation:						
At 1 April 2021	(241.2)	(53.8)	-	(43.3)	(59.8)	(398.1)
Boundary adjustment	3.0	0.6	-	-	0.7	4.3
Restatements	1.9	0.1	-	-	0.2	2.2
Charged in year	(10.7)	(10.6)	-	(3.4)	(7.3)	(32.0)
Revaluations	(20.6)	0.3	-	(1.9)	0.3	(21.9)
Impairments	-	1.0	-	-	(0.3)	0.7
Reclassifications and transfers	0.1	0.5	-	0.3	0.4	1.3
Disposals	0.6	1.5	-	2.5	4.5	9.1
At 31 March 2022	**(266.9)**	**(60.4)**	**-**	**(45.8)**	**(61.3)**	**(434.4)**
Carrying amount at 31 March 2021	676.7	409.3	87.9	40.6	55.8	1,270.3
Carrying amount at 31 March 2022	**734.4**	**411.1**	**97.2**	**44.0**	**53.7**	**1,340.4**

Asset financing:						
Owned	697.1	368.6	94.7	44.0	46.1	1,250.5
Finance leased	-	13.0	2.5	0.0	4.3	19.8
PFI reversionary interest	0.0	1.2	0.0	0.0	0.1	1.3
On balance sheet PFI contracts	37.3	28.3	-	0.0	3.2	68.8
Carrying amount at 31 March 2022	**734.4**	**411.1**	**97.2**	**44.0**	**53.7**	**1,340.4**

Infrastructure assets include the following:

	2021-22 £bn	2020-21 £bn
Railway network as reported by the Department for Transport and managed by Network Rail	365.5	336.8
Strategic road network assets as reported by the Department for Transport and managed by Highways England	146.0	134.6
Road network assets held by the Scottish Government	23.0	20.8
Networked assets held by Scottish Water	68.7	64.8
Infrastructure assets held by the Department for Infrastructure – Northern Ireland	31.2	28.5
Networked assets held by the Welsh Government	21.1	19.8
Networked assets held by local authorities	64.3	63.8
Networked assets held by Transport for London (included in local authorities total above)	21.2	19.1

The value of infrastructure assets has increased by £57.7 billion in total during 2021-22. The Department for Transport had an increase of £45 billion on the prior year, £15 billion in new additions and £39 billion of revaluation gains, offset by £8 billion of depreciation charges. The main contributor to the balance of infrastructure assets held under PFI contracts is the strategic road network. Further details can be found in Note 5 of the Department for Transport's 2021-22 annual report and accounts. Further information on the valuation of infrastructure assets is included in the critical accounting estimates and judgements in Note 2.4. Further information on depreciation charges across the account is provided in Note 10.

The Department for Environment, Food and Rural Affairs (DEFRA) have implemented a depreciated replacement cost valuation for their operational infrastructure assets. The net book value of these assets has increased in 2021-22 by £5.9 billion as a result of both changes in costing rates and the changes in the scope of assets included in the Statement of Financial Position under the new valuation basis. These amounts have been indexed.

Land and Buildings has increased by £1.8 billion during 2021-22. The biggest holders of Land and Buildings are the Academies sector, the Department of Health and Social Care and the Ministry of Justice.

Reclassifications and transfers include assets reclassified from assets under construction to other types of assets and transfers to and from intangible assets. Of the £22.3 billion outflow (including disposals) from assets under construction, £6.5 billion (2020-21: £3.6 billion) relates to the Ministry of Defence. For details see Note 6 of the Ministry of Defence Annual Report and Accounts 2021-22.

Assets under construction increased by £9.3 billion. £5.3 billion of this increase can be attributed to the Department for Transport and work on the construction of HS2, and £2.6 billion is attributable to the Ministry of Defence.

Other assets consist of:

	Plant and machinery	Transport equipment	IT equipment	Furniture, fittings and other	Total other assets
	£bn	£bn	£bn	£bn	£bn
Carrying amount as at 31 March 2022	19.5	13.2	6.0	15.0	53.7
Carrying amount as at 31 March 2021	18.8	13.8	5.7	17.5	55.8

Some heritage assets are not recognised on the Statement of Financial Position or in this note, as the costs of valuing these unique assets are not commensurate with the benefits. Many of these assets are held by the Department for Digital, Culture, Media & Sport (DCMS) and its arm's length bodies. For details see Note 8 of the DCMS Annual Report and Accounts 2021-22.

The **boundary adjustment** line above includes the net decrease of £31.0 billion due to the effect of entities which made a data submission to WGA in only one of the current or prior years. A number of entities contributed to the note total through their data submissions in 2020-21 but did not make a submission to the WGA this year. These entities contributed a total of £43.3 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £12.4 billion to the note this year.

Property, plant and equipment 2020-21

	Infrastructure assets	Land and buildings	Assets under construction	Military equipment	Other assets	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Cost or valuation:						
At 1 April 2020	916.8	512.3	76.5	85.8	120.9	1,712.3
Boundary adjustment	(19.3)	(63.0)	(2.2)	-	(8.5)	(93.0)
Additions	13.8	8.9	28.4	0.5	6.2	57.8
Revaluations	6.7	8.5	0.1	1.6	1.0	17.9
Impairments	(0.1)	(8.5)	(0.7)	(3.4)	(2.0)	(14.7)
Reclassifications and transfers	0.8	9.3	(13.8)	1.4	1.6	(0.7)
Disposals	(0.8)	(4.4)	(0.4)	(2.0)	(3.6)	(11.2)
At 31 March 2021	**917.9**	**463.1**	**87.9**	**83.9**	**115.6**	**1,668.4**
Depreciation:						
At 1 April 2020	(240.9)	(53.1)	-	(44.5)	(60.5)	(399.0)
Boundary adjustment	5.8	3.0	-	-	2.7	11.5
Charged in year	(10.3)	(10.7)	-	(2.9)	(6.7)	(30.6)
Revaluations	3.3	4.3	-	(0.8)	0.2	7.0
Impairments	-	0.4	-	2.8	1.1	4.3
Reclassifications and transfers	0.2	0.4	-	0.5	0.3	1.4
Disposals	0.7	1.9	-	1.6	3.1	7.3
At 31 March 2021	**(241.2)**	**(53.8)**	**-**	**(43.3)**	**(59.8)**	**(398.1)**
Carrying amount at 31 March 2020	675.9	459.2	76.5	41.3	60.4	1,313.3
Carrying amount at 31 March 2021	**676.7**	**409.3**	**87.9**	**40.6**	**55.8**	**1,270.3**
Asset financing:						
Owned	645.5	367.0	87.7	40.6	50.2	1,191.0

Finance leased	-	12.7	0.1	-	0.2	13.0
On balance sheet PFI contracts	31.2	29.6	0.1	-	5.4	66.3
Carrying amount at 31 March 2021	**676.7**	**409.3**	**87.9**	**40.6**	**55.8**	**1,270.3**

Note 13. Investment properties

	2021-22 £bn	2020-21 £bn
As at 1 April 2021	16.5	24.1
Boundary adjustment	(3.0)	(7.5)
Restatements	0.2	
Additions	0.4	0.8
Revaluations and impairments	1.0	(0.5)
Disposals	(0.3)	(0.4)
As at 31 March 2022	**14.8**	**16.5**

Investment properties are comprised mainly of land and buildings owned by local authorities. They provide rental income for the funding of services as part of a financial strategy to minimise the use of general reserves to meet ongoing expenditure.

Of the £14.8 billion total balance (2020-21: £16.5 billion), £13.9 billion (2020-21: £15.7 billion) sits within the local government sector with the remaining £0.8 billion (2020-21: £0.8 billion) sitting in the central government sector.

The boundary adjustment line above represents the net decrease of £3.0 billion due to the effect of entities which made a data submission to WGA in only one of the current or prior years. A number of entities contributed to the note total through their data submissions in 2020-21 but did not make a submission to the WGA this year. These entities contributed a total of £3.5 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.5 billion to the note this year.

Note 14. Intangible assets

Intangible assets 2021-22

	Military equipment £bn	Development expenditure £bn	Software £bn	Licences and other £bn	Total £bn
Cost or valuation:					
At 1 April 2021	38.0	13.8	12.5	12.5	76.8
Boundary Adjustment	-	-	0.2	(0.1)	0.1
Restatements	-	(0.1)	-	0.4	0.3
Additions	2.2	1.7	1.1	1.5	6.5
Revaluations and impairments	(0.5)	(0.3)	0.2	-	(0.6)
Reclassifications and transfers	0.1	(1.1)	1.0	0.2	0.2
Disposals	(0.2)	(1.0)	(0.7)	(1.2)	(3.1)
At 31 March 2022	**39.6**	**13.0**	**14.3**	**13.3**	**80.2**
Amortisation:					
At 1 April 2021	(12.4)	(6.9)	(8.6)	(7.9)	(35.8)
Boundary Adjustment	-	-	-	(0.1)	(0.1)
Restatements	-	0.1	-	(0.3)	(0.2)
Charged in year	(0.9)	(0.5)	(1.2)	(1.1)	(3.7)
Revaluations and impairments	0.2	0.1	(0.2)	-	0.1
Reclassifications and transfers	-	0.1	0.1	-	0.2
Disposals	0.2	0.9	0.7	1.2	3.0
At 31 March 2022	**(12.9)**	**(6.2)**	**(9.2)**	**(8.2)**	**(36.5)**
Carrying amount at 31 March 2021	25.6	6.9	3.9	4.6	41.0
Carrying amount at 31 March 2022	**26.7**	**6.8**	**5.1**	**5.1**	**43.7**

Intangible assets have increased by 6.6% (£2.7 billion) from £41.0 billion in 2020-21 to £43.7 billion in 2021-22. This is driven by movements in

Military Equipment and Software which have increased by £1.1 billion and £1.2 billion respectively.

The military equipment balance relates to assets held within the Ministry of Defence, and is made up of Single Use Military Equipment and Assets Under Construction (AUC) as per the Ministry of Defence published accounts (see Note 5 of Ministry of Defence 2021-22 accounts).

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £0.1 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.1 billion to the note this year, giving no net movement between years due to missing data.

Intangible assets 2020-21

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

Note 15. Trade and other receivables

	2021-22 £bn	2020-21 £bn
Non-current:		
Taxation and duties due	4.2	4.5
Trade receivables	1.5	1.5
Other receivables	8.2	9.2
EU receivables	4.6	3.7
Prepayments and accrued revenue	1.4	1.4
Welfare overpayments	3.1	2.5
Contract assets	3.2	1.6
Total before impairment	26.2	24.4
Less: provision for impairment of receivables	(3.8)	(3.8)
Total non-current trade and other receivables	**22.4**	**20.6**
Current:		
Accrued tax revenue receivable	122.6	94.4
Taxation and duties receivable	49.6	65.4
Trade receivables	9.9	10.4
Other receivables	17.5	18.2
Prepayments and accrued revenue	13.2	14.3
Welfare overpayments	0.6	0.4
Court fines	3.8	3.6
Contract assets	3.9	3.5
Total before impairment	221.1	210.2
Less: provision for impairment of receivables	(27.9)	(27.9)
Total current trade and other receivables	**193.2**	**182.3**
Total trade and other receivables	**215.6**	**202.9**

Non-current

The £1.8 billion increase in total non-current receivables is driven by an increase in contract assets, which are predominantly held by the Department for Business, Energy and Industrial Strategy.

There were a number of entities which contributed to the non-current receivables total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £0.5 billion to the total last year. Similarly, there were also a number of entities which made contributions to the total this year but did not make a submission in 2020-21. These entities contributed a total of £0.1 billion of non-current receivables to the note this year, giving a net decrease of £0.4 billion due to missing data.

Current

The £10.9 billion increase in total current receivables is the result of a significant increase in accrued tax revenue receivable, being offset by a decrease to taxation and duties receivable.

Accrued tax revenue receivable represents amounts of taxes and duties relating to 2021-22 that were not yet due or received from taxpayers at year end, where these have not been included in taxation and duties due and collection is reasonably certain. This figure is an estimated valuation, supported by tax returns received after the year end.

Taxation and duties receivable represents all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received by HMRC. In 2020-21, £22.1 billion of this balance related to the VAT payment deferral scheme introduced in response to the Covid-19 pandemic. For 2021-22, deferred VAT made up less than £1 billion of the total.

There were a number of entities which contributed to the current receivables total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £2.2 billion to the total last year. Similarly, there were also a number of entities which made contributions to the total this year but did not make a submission in 2020-21. These entities contributed a total of £0.9 billion of current receivables to the note this year, giving a net decrease of 1.3 billion due to missing data.

The provision for impairment of receivables is analysed below:

	Current £bn	Non-current £bn	2021-22 £bn	2020-21 £bn
Taxation and duties due	16.8	1.2	18.0	18.5
Welfare payments	0.6	2.5	3.1	2.4
Court fines	3.2	-	3.2	3.1
Other trade and other receivables	7.3	0.1	7.4	7.7
Total provision for impairment of receivables	**27.9**	**3.8**	**31.7**	**31.7**

Note 16. Other financial assets

	2021-22 £bn	2020-21 £bn
Non-current:		
Loans and deposits	234.3	152.3
Student loans	107.7	84.7
Equity investments	45.0	44.0
IMF quota subscription	21.2	20.8
Derivatives and other financial assets	48.7	39.0
Total non-current other financial assets	**456.9**	**340.8**
Current:		
Debt securities	112.9	129.0
Loans and deposits	107.9	100.7
Student loans	3.9	3.1
Equity investments	1.4	0.8
IMF Special drawing rights	33.8	12.4
Derivatives and other financial assets	8.0	18.9
Total current other financial assets	**267.9**	**264.9**
Total other financial assets	**724.8**	**605.7**

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £3.1 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission last year. These entities contributed a total of £1.4 billion to the note this year, giving a net decrease of £1.7 billion due to missing data.

Non-current loans and deposits increased by £82.0 billion mainly due to the Term Funding Scheme with additional incentives for SMEs (TFSME). The TFSME was launched in March 2020 as part of the Bank of England's Policy Committees' announcement of a comprehensive package of measures to help UK businesses and households manage the economic disruption caused by Covid-19, and ran until 31 October 2021. Uptake during 2021-22 was £192.4 billion (2020-21: £75.4 billion). The existing TFS Loan (cash made to eligible participants financed by issuance of central bank reserves secured against eligible collateral) fell by £39.5 billion to nil as the scheme fully matured in February 2022. The majority of the remaining balance relates to a £8.5 billion increase in loans advanced by the Public Loans Board.

Current loans and deposits increased by £7.2 billion during 2021-22, due to an increase of £2.1 billion in reverse sale and repurchase agreements held within the Debt Management Account; these agreements are funds advanced to banks under reverse repurchase agreements, where securities are held as collateral and returned when the funds are repaid. The value of loans and deposits lent by the Bank of England increased by £5.1 billion and the value of reverse repurchase agreements with the Exchange Equalisation Account fell by £2.3 billion.

Loans and deposits comprise:

	Non-current £bn	Current £bn	2021-22 £bn	2020-21 £bn
Loans	231.0	6.2	237.2	153.4
Deposits	3.2	12.7	15.9	13.7
Repurchase agreements	-	89.0	89.0	85.9
Total loans and deposits	**234.2**	**107.9**	**342.1**	**253.0**

Deposits include those made by local government at commercial banks of £13.6 billion (2020-21: £12.4 billion).

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

Student loans. A summary of changes for 2021-22 is shown below:

	2021-22 £bn	2020-21 £bn
As at 1 April	87.8	79.1
New loans issued (net of impairment)	22.0	20.9
Repayments	(3.5)	(2.9)
Fair value movement	5.3	(9.2)
Impairment adjustments	-	(0.1)
Fair value movement as at 31 March	**111.6**	**87.8**

Student Loans have increased by £23.8 billion of which £19.1 billion is for post 2012 loans to full time undergraduates. Under IFRS 9, student loans are recognised at fair value. In determining the fair value of student loans, a discounted cash flow model has been used (see table below) which includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is recognised in the statement of revenue and expenditure and the Department for Education's statement of comprehensive net expenditure.

	2021-22 £bn	2020-21 £bn
Deferral of the difference in fair value and amount advanced to students on new loans	(8.6)	(9.8)
Changes made to student loan valuation model	11.5	0.6
Interest	6.8	1.5
Operational costs	0.4	(0.1)
Other fair value movement	(6.3)	(1.4)
As at 31 March	**3.8**	**(9.2)**

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

	2021-22 £bn	2020-21 £bn
NatWest (formerly RBS)	11.0	13.6
Other	35.4	31.2
Total equity investments	**46.4**	**44.8**

Equity investments has risen to £46.4 billion (2020-21: £44.8 billion) whilst there was a £2.6 billion fall in the value of NatWest (formerly Royal Bank of Scotland) ordinary shares as £3.9 billion of shares were sold and there was a fair value adjustment of £1.3 billion. The three largest contributors to 'Other' equity include: Foreign and Commonwealth Development Office investment portfolio £4.2 billion (2020-21: £3.7 billion), Pension Protection Fund £6.4 billion (2020-21: £6.1 billion) and Commonwealth Development Corporation equity investment which is increased by £0.7 billion at £4.6 billion (2020-21: £3.9 billion).

The IMF quota subscription and Special Drawing Rights (SDRs) relate to the UK's investments in the IMF. On becoming a member of IMF in

1944, the UK was required to pay a quota subscription to the IMF in a mixture of SDRs, the IMF's unit of account, and other widely accepted currencies. The UK's quota subscription of 20.2 billion SDRs was equivalent to £21.2 billion at 31 March 2022, an increase of £0.4 billion compared to the prior year. The SDRs increased by £21.4 billion primarily as a result of the IMF decision, on 23rd August 2021, to issue a general allocation of SDRs to all members in proportion of their existing quotas in the fund, of which the UK received SDRs of 19.318 million.

The fall in **debt securities** of £16.1 billion primarily relates to the value of debt securities issued by government and other public sectors which fell by £8.0 billion.

The overall value of **derivatives and other financial assets** £56.7 billion (2020-21: £57.9 billion) has decreased by £1.2 billion.

Note 17. Inventories

	Raw materials and consumables £bn	Other £bn	2021-22 Total £bn	2020-21 Total £bn
As at 1 April	10.6	4.7	15.3	10.6
Boundary adjustment	-	-	-	(0.1)
Additions	25.4	3.5	28.9	36.8
Disposals/Consumed	(24.4)	(3.1)	(27.5)	(22.4)
Write on / (offs)	(2.9)	(0.1)	(3.0)	(9.3)
Revaluation and reclassification	(0.2)	-	(0.2)	(0.3)
As at 31 March	**8.5**	**5.0**	**13.5**	**15.3**

The bulk of raw materials and consumables are managed by two government departments: the Department of Health and Social Care (DHSC) and the Ministry of Defence (MoD). DHSC holds inventories valued at £3.6 billion (compared to £5.6 billion in 2020-21), primarily related to consumables. particularly in response to the Covid-19 pandemic.

The MoD's figure of £3.8 billion (2020-21: £3.7 billion) primarily comprises engineering and technical stock (£2.3 billion) and munitions (£0.9 billion). A substantial portion of these supplies and spare parts are logged in the inventory accounting systems, encompassing over

640,000 different types and more than 740 million items. This diverse inventory includes items such as Guided Weapons, Missiles and Bombs (GWMB), significant equipment spares (e.g. engines), as well as Raw Materials and Consumables (RMC).

The Other inventories of £5.0 billion encompass a diverse array of stocks and supplies across the public sector. The most substantial portion consists of assets in property and development land held by the Department for Levelling Up, Housing and Communities, totalling £1.5 billion. Other significant holders of inventories include the Department for Transport (DfT) and the British Broadcasting Corporation (BBC).

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £0.2 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. However these entities contributed less than £0.1 billion to the note this year, giving a net decrease of £0.2 billion due to missing data.

Note 18. Cash and cash equivalents

	2021-22 £bn	2020-21 £bn
Balance at 1 April	39.6	37.6
Boundary adjustment	(1.7)	(3.4)
Change in cash and cash equivalent balances	7.7	5.4
Balance at 31 March	**45.6**	**39.6**
The following balances at 31 March were held at:		
Government Banking Service	(5.1)	(8.2)
Commercial banks and cash in hand	22.6	18.0
Short term investments	28.1	29.8
Balance at 31 March	**45.6**	**39.6**

Cash and Cash Equivalents increased by £6.0 billion (15.2%) to £45.6 billion (2020-21: £39.6 billion). Cash held by commercial banks increased by £4.6 billion (25.6%) to £22.6 billion (2020-21: £18.0 billion).

There was a £1.7 billion (5.7%) decrease in short-term investments held by various public sector bodies, including local government, the National Loans Fund, and the Bank of England.

Cash held at the Government Banking Service shows a balance of –£5.1 billion (2020-21: -£8.2 billion). This is a combination of positive balances held by government departments as part of the Government Banking Scheme, offset by a negative balance of £54.3 billion (2020-21: -£61.3 billion) held by the National Loans Fund. The overall balance is negative due to the government's cash management practices.

HMRC experienced a significant reduction of £5.2 billion in cash and cash equivalents during the year. This reduction is primarily attributed to the allocation of funds for Covid-19 support scheme payments. Some of this balance was reallocated for 'business as usual' (BAU) resulting in a transfer of £4.3 billion to the designated BAU spending account between December 1, 2021, and March 31, 2022.

The Department of Health and Social Care (DHSC) saw an increase of £1.3 billion in cash and cash equivalents, primarily due to significantly increased spending related to the department's response to Covid-19.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £2.5 billion to this note’s total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.8 billion to the note this year, giving a net decrease of £1.7 billion due to missing data.

Note 19. Trade and other payables

	2021-22 £bn	2020-21 £bn
Non-current:		
Trade and other payables	6.8	5.6
Accruals and deferred income	11.3	10.2
Imputed finance lease element of on-balance sheet PFI contracts	28.7	31.0
Obligations under finance leases	3.3	3.5
Contract liabilities	1.7	1.7
Total non-current trade and other payables	**51.8**	**52.0**
Current:		
Trade and other payables	37.8	38.8
Accruals and deferred income	76.3	71.0
Refunds of taxation and duties payable	42.0	55.3
Imputed finance lease element of on-balance sheet PFI contracts	1.5	1.6
Obligations under finance leases	0.2	0.2
Contract liabilities	3.0	2.4
Total current trade and other payables	**160.8**	**169.3**
Total trade and other payables	**212.6**	**221.3**

Total trade and other payables has decreased by £8.7 billion year on year.

This is partly due to the easing of the impact of the Covid-19 pandemic, which had been shared across a large number of WGA entities last year. For example, HM Revenue and Customs had included £2.4 billion of accruals related to Covid-19 support schemes in their 2020-21 statutory accounts. This balance had reduced to £1.4 million by the end of 2021-22.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make submissions to the WGA this year. These entities contributed a total of £6.5 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission last year. These entities contributed a total of £2.7 billion to the note this year, with the biggest impacts being on the current trade and other payables (£1.1 billion) and non-current PFI (£0.7 billion) note lines. The net decrease due to missing data was £3.8billion.

Partly offsetting the net decreases related to the above factors were increases in other areas, most notably impacting on the **current accruals and deferred income** note line. The increase of £5.3 billion on this line included increases of £1.4 billion for the Ministry of Defence (largely due to PPE additions), £1.3 billion related to the Department for Work and Pensions, and a £1.1 billion increase from the Department for Levelling Up, Housing and Communities (mainly made up of increases in Accrued Expenses).

In addition to this, a further 12 entities with increases between £60 million and £200 million together contributed to a £1.2 billion increase on this line.

Please note that these amounts may not always be exactly the same as shown in individual entity accounts due to eliminations of intra-government balances as part of the WGA accounts production process.

Trade and other payables, accruals, and **deferred income** are held across a wide range of public sector entities and relate to both day-to-day business delivery costs and other financial obligations.

Refunds of taxation and other duties payable relates mainly to council tax and business rates owed to the taxpayer, amounts due to VAT traders where their claim was received after the end of the year and amounts in respect of Corporation Tax, Income Tax and other small taxes expected to be repayable by HMRC pending finalisation of taxpayer liabilities.

Contract liabilities are recognised where an entity has received consideration from a customer prior to the transfer of goods and services. The largest individual entity contribution to contract liabilities are the sums received on account by the Nuclear Decommissioning Authority relating to income from long term contracts. This accounts for £2.3 billion of the overall total (2020-21: £2.0 billion).

Further information on **obligations under finance leases** can be found in Note 26, while further information on PFI commitments can be found in Note 27.

Note 20. Government borrowings

	2021-22 £bn	2020-21 £bn
Non-Current:		
Gilts	1,235.7	1,246.3
Total non-current government borrowings	**1,235.7**	**1,246.3**
Current:		
National Savings and Investment products (NS&I)	207.6	202.9
Treasury bills	36.1	52.6
Gilts	96.3	18.5
Total current government borrowings	**340.0**	**274.0**
Total government borrowings	**1,575.7**	**1,520.3**

The government borrows to make up the shortfall between income and expenditure (including any capital expenditure). The National Accounts show a clearer picture of government borrowing used for the financing of deficits, and more detail on this can be found in Chapter 1.

National Savings and Investments (NS&I) products are a range of secure savings and investments offered to the public, that are backed by the Exchequer. They provide the government with a source for financing public spending. In 2021-22, the NS&I liability increased by £4.7 billion to £207.6 billion (2020-21: £202.9 billion) due to significant inflows from Premium bonds and Direct saver accounts, partly offset by net outflows on guaranteed bonds and income bonds products. Further information on these products can be found on the NS&I website and in NS&I's 2021-22 accounts.

Treasury bills are issued by the Debt Management Office (DMO) and, along with other money market operations, are used by the DMO to meet the government's daily cash requirements. For 2021-22, the carrying value of Treasury bills in issue was £36.1 billion (2020-21: £52.6 billion). The £16.5 billion reduction from 2020-21 in the Treasury bills liability is due to revisions in the DMO's financing remit during 2021 as updated data on the UK economy emerged, which significantly reduced the finance requirement in 2021-22. Further information on these operations can be found in the Debt Management Report 2021-22.

Gilts are UK government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Price Index (RPI). As the government's debt manager, the DMO sells gilts to the market to ensure sufficient funding is available to meet the government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, except for gilts held by funded public sector pension schemes, which are not eliminated on consolidation because funded public sector schemes are disclosed in the WGA as a single net liability figure. IAS 19 Employee Benefits states that plan assets exclude non-transferable financial instruments issued; therefore, it is permissible to include gilts and other transferable financial instruments issued. Further information regarding funded public sector pension schemes is provided in Note 24 Public Sector Pensions.

The government sought to meet the additional financing requirements necessitated by the periods of disruption caused by Covid-19 through its normal debt management operations. While the 2021-22 gilt financing requirement was lower than the borrowing requirement of 2020-21, and was reduced twice during 2021-22 in April 2021 and October 2021 as updated data on the UK economy emerged, it remained high relative to pre-pandemic levels, and increases in the RPI resulted in higher financing costs for index-linked gilts. This is reflected in the overall increase of £67.2 billion (2020-21: £82.3 billion) in the total gilt liability across current and non-current gilts to £1,332.0 billion (2020-21: £1,264.8 billion). Further information regarding gilts is available in the 2021-22 Debt management report and the 2021-22 accounts of the National Loans Fund.

Further information on the government's financial risk, including liquidity and funding risk, is included in note 23.

There is no impact on the note total from entities which made data submissions in 2020-21, but which did not make a submission to the WGA this year, and also no impact from entities which submitted this year but not in 2020-21.

Note 21. Other financial liabilities

	2021-22 £bn	2020-21 £bn
Non-current:		
Deposits by banks	2.4	2.3
Bank and other borrowings	66.1	69.8
Debt securities	2.9	1.4
Derivatives	38.1	24.7
Financial guarantees	0.5	0.5
Other financial liabilities	193.6	76.8
Total non-current other financial liabilities	**303.6**	**175.5**
Current:		
Deposits by banks	885.5	812.6
Banknotes in circulation	86.4	84.7
Bank and other borrowings	7.5	10.1
IMF Special Drawing Rights liability	30.9	10.4
Debt securities	4.0	3.1
Derivatives	1.5	2.6
Financial Guarantees	14.6	19.8
Total current other financial liabilities	**1,030.4**	**943.3**
Total other financial liabilities	**1,334.0**	**1,118.8**

Deposits by banks. The vast majority of deposits by banks are held by the Bank of England. These deposits, repayable on demand, are the reserve accounts held by the Bank and are the means by which banks and building societies settle transactions.

Banknotes are issued by the Bank of England. The value of 'Notes in Circulation' increased by £1.7 billion.

Bank and other borrowings include loans and overdrafts. The largest element in this category is the £25.0 billion (2020-21: £23.9 billion) of Network Rail total outstanding debt; as reported by the Department for Transport. Other material balances include £15.5 billion (2020-21: £16.9 billion) of non-interest bearing securities in the National Loans Fund.

International Monetary Fund (IMF) Special Drawing Rights (SDRs) liability has increased to £30.9 billion (2020-21: £10.4 billion) due to the

IMF's general allocation of SDRs to all members of the SDR Agreement which the UK received 19,318 million. A corresponding asset of £33.8 billion (2020-21: £12.4 billion) for the UK's actual holdings of SDRs is included in Note 16.

Debt securities comprise securitised notes and covered bonds issued by HM Treasury group and the Bank of England to securitise loans to customers and to raise unsecured medium-term funding.

Derivatives include the £26.9 billion (2020-21: £16.9 billion) liability held by the Department for Business, Energy and Industrial Strategy (BEIS) relating to contracts for Difference (CfD); these are a mechanism used to support investment in UK low carbon energy generation products. The increase reflects the remeasurement in the fair value of CfD and was recognised in BEIS's accounts.

Other derivatives relate to the Pension Protection Fund of £10.4 billion (2020-21: £6.6 billion) which are interest rate swaps, options, credit default swaps and forward foreign exchange contracts to support liability-driven investment.

Financial guarantees of £15.8 billion relate to guarantee schemes established by BEIS in response to the Covid-19 pandemic; these include Bounce Back Loans Scheme (£14.0 billion), Coronavirus Business Interruption Loan Scheme (£1.4 billion), Recovery Loan Scheme (£0.3 billion) and Coronavirus Large Business Interruption Loan Scheme (£0.1 billion).

Other Financial Liabilities total £193.6 billion (2020-21: £76.8 billion) of which £192.4 billion (2020-21: £74.5 billion) are a result of the Bank of England's Policy Committee's announcement in March 2020 of a comprehensive package of measures to help UK businesses and households manage economic disruption caused by the Covid virus. Part of the package involved the launch of the Term Funding Scheme with additional incentives for SMEs (TFSME). The drawdown ran until 31 October 2021.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £1.9 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission last year. These entities contributed a total of £0.6 billion to the note this year, giving a net decrease of £1.3 billion due to missing data.

Note 22. Provisions for liabilities and charges

	Nuclear decommissioning	Clinical negligence	EU liabilities	PPF*	Other	2021-22 Total	2020-21 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
At 1 April	159.1	87.3	36.3	28.9	54.8	366.4	374.8
Restatement	-	-	-	-	(0.5)	(0.5)	2.8
Boundary adjustments	-	-	-	-	-	-	(0.5)
Provisions utilised in year	(3.6)	(2.6)	(10.6)	(1.0)	(7.4)	(25.2)	(25.3)
New provisions or increase in expected future pay-outs	16.4	6.8	4.5	(0.2)	17.5	45.0	22.3
Change in discount rate	90.5	42.6	-	-	4.3	137.4	2.4
Discount rate unwind	10.3	0.4	1.5	-	0.3	12.5	1.6
Provisions not required written back	0.6	(3.3)	-	-	(3.6)	(6.3)	(11.4)
Transfers to/from payables and other movements	(0.2)	0.1	-	-	(1.4)	(1.5)	(0.3)
At 31 March	**273.1**	**131.3**	**31.7**	**27.7**	**64.0**	**527.8**	**366.4**

*Pension Protection Fund

Provisions movement

	2021-22 £bn	2020-21 £bn
Provision movement		
Amounts included in the Statement of Revenue and Expenditure:		
Increase in provisions	28.0	32.1
Provision expense in cost to public services	**28.0**	**32.1**
Discount rate changes	137.4	2.4
Discount rate unwind	12.5	1.6
Provision financing costs	**149.9**	**4.0**
Total expenditure recognised in the Statement of Revenue and Expenditure	**177.9**	**36.1**
Amounts included in the Statement of Financial Position	8.7	(22.0)
Pay-outs made in year	(25.2)	(25.3)
Total provision movement	**161.4**	**(11.2)**

Provision profile

	Nuclear decommissioning £bn	Clinical negligence £bn	EU liabilities £bn	PPF* £bn	Other £bn	2021-22 Total £bn	2020-21 Total £bn
Within one year	3.6	3.4	8.4	1.4	12.9	29.7	28.4
Between one and five years	18.6	13.9	12.1	4.7	18.5	67.8	68.7
Thereafter	250.9	114.0	11.2	21.6	32.6	430.3	269.3
Total provision liability	**273.1**	**131.3**	**31.7**	**27.7**	**64.0**	**527.8**	**366.4**
Current provisions	3.6	3.4	8.4	1.4:	12.9	29.7	28.4
Non-current provisions	269.5	127.9	23.3	26.3	51.1	498.1	338.0

*Pension Protection Fund

Provisions are recognised when an entity has a present legal or constructive obligation because of a past event, it is probable that the entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, considering the risks and uncertainties

The total provision liability increased by £161.4 billion as of 31 March 2022 to £527.8 billion in 2021-22. £137.4 billion of this increase is due to changes in the discount rate. The two largest WGA provisions, for nuclear decommissioning and clinical negligence, were most significantly impacted by these changes. Further detail on the main areas of provisions and the discount rate changes are provided below.

Impact of changes in discount rate

Some government priorities carry obligations that are very long term and will involve expenditure over decades to come. The eventual costs of these long-term projects are uncertain, but entities are required to present a single number in the annual accounts. This single number is based on best estimate of costs, technology, and other relevant factors, adjusted to reflect the changing value of money over time. The worth of future cash flows is calculated at present value in accordance with accounting standards. Provision discount rates set by HM Treasury are updated annually and have a material effect on liabilities.

Previously HM Treasury issued real rates based upon the real yield of UK index-linked gilts. From 2018-19 onwards, HM Treasury has issued nominal rates that do not take account of inflation, unlike real rates. Using these nominal rates, the cash flows are inflated using inflation rates provided by HM Treasury except where a more appropriate forecast has been identified for specific provisions.

Inflation assumptions

In using nominal rates there is a need to inflate cashflows as such rates do not take a measure of inflation into account unlike real discount rates. HM Treasury provides the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) forecasted inflation rates to be employed to expected cash flows, except where an entity has judged there is a reasoned basis for alternative rates to be employed. They are based on what is judged to be the most statistically reliable measure of inflation.

Provision for nuclear decommissioning

Department for Business, Energy & Industrial Strategy (BEIS) £238.3 billion (2020-21: £136.2 billion)

The nuclear decommissioning provision represents the best estimate of the costs of decommissioning plant and equipment on each of the designated nuclear licensed sites in future. The Nuclear Decommissioning Authority (NDA) expect that the programme of decommissioning work will take until 2137.

The NDA's best estimate of the future costs of the estate is based on an assumed inventory of materials, using strategies for retrieval and disposal over several decades. The NDA also considers credible risks and opportunities which may increase or decrease the cost estimate, but which are deemed less probable than the best estimate. Each of these elements (quantity, method, and time to treat) is uncertain, as is the cost of developing the necessary technology and plans to deal with these activities. The quality of the forecast may become less certain with time and acceptable standards of clean-up and end states may change.

The decommissioning program is projected to extend until 2137. The estimate primarily focuses on the initial 20 years, constituting £73 billion of the overall £237 billion provision (2020-21: £60 billion out of £135 billion). The discounting of forward cash flow estimates to present value significantly influences the liability reflected in the Statement of Financial Position, amounting to £237 billion (2020-21: £135 billion). The undiscounted equivalent of this reported liability stands at £149 billion (2020-21: £132).

As of the end of 2020-21, the discounted nuclear provision stood at £135.8 billion. Subsequent movements are outlined as follows: In 2021-22, £3.2 billion was released from the provision, which had been initially provided in 2020-21. Before adjusting discount rates and cost estimates, an inflationary adjustment was applied to the opening provision balance to reflect money values as of the reporting date.

Summary table of general provisions discount rates applied for the last five years	2021-22 Nominal rate	2020-21 Nominal rate	2019-20 Nominal rate	2018-19 Nominal rate	2017-18 Real rate
Short-term	0.47%	-0.02%	0.51%	0.76%	-2.42%
Medium-term	0.47%	-0.02%	0.55%	1.14%	-1.85%
Long-term	0.70%	0.18%	1.99%	1.99%	-1.56%
Very long-term	0.71%	1.99%	1.99%	1.99%	-

The estimates are formulated based on assumptions regarding the anticipated processes and methods for fulfilling the obligations. They are informed by the most up-to-date technical knowledge, prevailing regulatory requirements, government policies, and commercial agreements. Due to the extensive timeframe and the intricacy of managing the plants and materials involved, there is significant uncertainty associated with the cost estimate, especially in the later years.

Sellafield remains the NDA's primary area of expenditure and has seen an increasing emphasis in recent years, as funding is channelled towards addressing the estate's highest hazards. Sellafield encompasses activities related to the operation of the site, reprocessing, eventual decommissioning, and includes all associated site overheads.

In the fiscal year 2021-22, general provisions were assessed using four distinct discount rates as specified by HM Treasury, aligned with the anticipated timing of cashflows.

Real Discount Rates	2021-22	2020-21	2019-20	Period from consolidated position
Short-term	-3.39%	-1.21%	-1.36%	0 to 5 years
Medium-term	-1.64%	-1.88%	-1.46%	5 to 10 years
Long-term	-1.27%	-1.78%	-1.42%	10 to 40 years
Very long-term	-1.27%	-0.01%	-0.01%	Over 40 years

The impact of the change in the discounting approach is included in the “Change in discount rate” movement of provisions. Where expenditure in settlement of a provision is expected to be recovered from a third party, the recoverable amount is treated as a separate asset. Provision charges in the Statement of Comprehensive Net Expenditure are shown net of changes in these recoverable amounts.

Ministry of Defence (MOD) £25.0 billion (2020-21: £13.2 billion)

Provisions have been allocated to cover the expenses associated with treating, storing, and disposing of nuclear materials, irradiated fuel, and radioactive waste stemming from the Defence Nuclear Programme. Additionally, provisions have been set up for the decommissioning of sites, facilities, and 31 submarines that are no longer in service, but for which the MOD bears ultimate responsibility.

The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 116 years. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. Should outcomes differ from assumptions in any of the following areas this may require material adjustments to the value of the nuclear decommissioning provisions and related assets and liabilities:

- The time over which the work will be delivered with the programme of work not scheduled to conclude until well into the next century;
- Interdependencies between programmes of work, for example, a Geological Disposal Facility (GDF) is assumed to be the end point for MOD's higher activity waste. If the assumptions underpinning a GDF were to change, this would have a direct impact on the provisions held by the Department;
- Uncertainty over future Government policy positions and potential regulatory changes;
- Possible technological advances which could impact the work to be undertaken to decommission and clean up the sites.

As of the conclusion of the fiscal year 2020-21, the discounted nuclear provision stood at £13.2 billion. Subsequently, there have been the following developments. Adjustments due to alterations in accounting estimates: £1.36 billion and impact of both unwinding and modifications to the existing discount rates applied to the provision on an annual basis: £10.4 billion. The adjustments made to the 2021-22 MOD estimate for nuclear decommissioning bring the discounted amount to £25.0 billion as of the balance sheet date.

Nuclear Liabilities Fund (NLF) £9.9 billion (2020-21: £9.7 billion)

The Nuclear Liabilities Fund Limited's primary objective is to receive, manage, and safeguard funds, investments, and various assets. This is done with the aim of ensuring adequate financial resources for fulfilling pertinent obligations associated with the decommissioning of eight nuclear power stations presently managed by Energy Nuclear Generation Limited. Additionally, the fund is responsible for making payments to EDF Energy in alignment with the stipulations outlined in the Nuclear Liabilities Funding Agreement.

The figure indicated in the relevant liabilities provision signifies the Fund's anticipated future obligation to the Licensee Energy Nuclear Generation Limited (EDF Energy) as of the financial position statement date. As per the Nuclear Liabilities Funding Agreement (NLFA) guidelines, the Fund's responsibility for these relevant liabilities will always be restricted to the assets it has at its disposal.

The Secretary of State for the Department for Business, Energy and Industrial Strategy has undertaken that HM Government will be responsible for meeting relevant liabilities to the extent that the Fund does not have sufficient assets available to it. Provisions is set so that the total provisions for relevant liabilities equal the total net assets less current liabilities and called up share capital of the Fund. The process by which EDFE determines its qualifying liabilities is prescribed by the NLFA. Under its terms, EDFE is required to prepare and update full life plans for decommissioning their power stations every five years, or three years prior to station closure, or in the event legislation or government policy changes, whichever occurs first. These plans are required to contain the most recent estimates of the costs of decommissioning.

Provision for clinical negligence

Department of Health and Social Care (DHSC) £128.2 billion (2020-21: £84.9 billion)

The Department of Health and Social Care provides for future costs in cases where it is the defendant in legal proceedings brought by claimants seeking damages for alleged clinical negligence. While NHS England, NHS Foundation Trusts, and NHS Trusts maintain legal responsibility for all liabilities covered by the Ex-Regional Health Authority Scheme (ex RHA), Existing Liabilities Scheme (ELS), and Clinical Negligence Scheme for Trusts (CNST), NHS Resolution (NHSR) manages the accounting for all the liabilities within these distinct schemes. Actuaries, appointed by NHSR, routinely review and assess movements in the anticipated future settlements' value under these schemes, which are documented in the NHS Resolution Annual Report and Accounts.

The non-current provision was increased by £2.457 billion in 2020-21 and by £2.790 billion in 2019-20 to reflect the prior period adjustment relating to the known claims in the clinical negligence provision.

The provision also encompasses the following liabilities concerning General Practice:

- **Clinical Negligence Scheme for General Practice (CNSGP)**: This covers clinical negligence claims for incidents that occurred in general practice on or after 1 April 2019.

- **Existing Liabilities for General Practice (ELGP)**: This reflects the interim arrangements through which NHS Resolution manages the Secretary of State's oversight and governance responsibilities regarding existing liabilities agreed upon with the Medical Protection Society (MPS), a medical defence organization.
- **Existing Liabilities Scheme for General Practice (ELSGP)**: This encompasses claims for historical NHS clinical negligence and other tortious incidents involving GP members of participating medical defence organizations occurring at any time before 1 April 2019. This scheme was extended to cover members of the Medical and Dental Defence Union of Scotland from 6 April 2020 and was further extended to include Medical Protection Society members from 1 April 2021.

Known reported claims are individually valued using likely costs to resolve the claim and probability factors to take account of the potential of a successful defence, while Incurred But Not Reported (IBNR) claims are valued using actuarial models to predict likely values. The value of the provision increased by £43.3 billion in 2021-22 from £84.9 billion at 31 March 2021 (as restated) to £128.2 billion at 31 March 2022.

The significant movements in the provision over the year are outlined as follows:

- A £42.6 billion increase due to reductions in the long-term and very long-term discount rates. The calculation of provisions relies significantly on a key assumption involving the utilization of discount rates to assign a present value to anticipated future cashflows.

Nominal Discount Rates	2021-22	2020-21	2019-20	2018-19
Short-term	0.47%	-0.02%	0.51%	0.76%
Medium-term	0.70%	0.18%	0.55%	1.14%
Long-term	0.95%	1.99%	1.99%	1.99%
Very long-term	0.66%	1.99%	1.99%	1.99%

The clinical negligence provision is notably sensitive to both long-term and very long-term discount rates. This responsiveness is a consequence of the enduring nature of the associated liabilities, influenced by reporting and settlement delays. Additionally, the prevalence of high-value claims settled through Periodical Payment Orders (PPO), with payments distributed over the claimant's remaining lifetime, contributes to this sensitivity.

In the 2021-22, there was a significant decrease in the long-term and very long-term discount rates prescribed by HM Treasury. This reduction resulted in a £42.6 billion increase in the provision. Despite the impactful nature of this rate change on provision values, it does not directly impact the immediate cost of settling claims. Short-term settlement costs are primarily influenced by claim frequency, severity, and legal considerations, such as the personal injury discount rate.

Therefore, the £42.6 billion increase in provisions should be interpreted as a shift in the valuation of liabilities, specifically influenced by the altered discount rates, rather than a fundamental shift in the underlying liabilities themselves.

- An £8.5 billion increase attributable to an additional year's worth of activity for all schemes across all incident years.
- A £6.9 billion decrease due to alterations in assumptions affecting the IBNR provision. The main drivers of this decrease pertain to the Clinical Negligence Scheme for Trusts (CNST) IBNR provision.

These provisions represent the English element of the clinical negligence provision and represent the current value, in today's prices, of the expenses associated with claims arising from harm occurring up to March 31 2022.

For received claims, the total count of new clinical negligence claims and reported incidents reached 15,078 in 2021-22, marking a 13% increase from the previous year. The substantial incorporation of general practice indemnity claims for incidents pre-dating April 1 2019, from Medical Defence Organisations is the primary factor driving this surge. A total of 2,005 ELSGP claims were transitioned from the MPS in 2021-22. However, CNSGP scheme for incidents post-April 1, 2019, continues to mature, with 1,502 claims received in 2021-22 compared to 973 in the preceding year.

In contrast, the number of new claims added to the CNST portfolio has declined for the third consecutive year. In 2021-22, new CNST claims totalled 10,226 (2020-21: 10,760). There was a rise in clinical claims from 13,351 in 2020-21 to 15,078 in 2021-22.

During the fiscal year 2021-22, NHSR received 22 claims related to Covid-19 under Clinical Negligence Scheme for Coronavirus. This represents an increase of just 15 from the seven claims received in the previous year.

For closed claims, in the fiscal year 2021-22, NHSR successfully resolved a total of 17,392 clinical and non-clinical claims, which is an increase from 15,395 in 2020-21. These resolutions resulted in total payments amounting to £2.5 billion, up from £2.3 billion in the previous year. Among these claims, 9,305 cases were settled with damages (2020-21: 8,412), while 8,234 claims concluded without damages (2020-21: 6,983). Notably, there were 893 more claims settled with damages compared to the preceding year. Specifically, within clinical claims, 6,514 were resolved without damages, marking an increase of 1,435 over the prior year's figure of 5,079. In terms of non-clinical claims, 1,720 were resolved without damages, a slight decrease from 1,907 in 2020-21. Overall, there was an increase in both the number of clinical claims resolved with damages paid and those without damages compared to the previous year, spanning all schemes.

All cash flows should be assumed to increase in line with the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) inflation rates unless three specific conditions are met. NHS Resolution have determined that in relation to Clinical Negligence the three conditions have been met and have therefore used alternative inflation measures for the IBNR provision and settled Periodic payment Order (PPO) claims. Further information including additional detail regarding key assumptions and areas of uncertainty is available in NHSR's Annual Report and Accounts.

NHS Wales organisations, the Welsh Government and the Scottish Government also hold provisions for clinical negligence that are included in the figures at the start of the note.

Provision for EU Liabilities Funding

HM Treasury (HMT) £31.1 billion (2020-21: £36.3 billion)

EU Financial Settlement: Article 140 – Reste a Liquider (RAL)

Article 140 of the Withdrawal Agreement, titled "Outstanding Commitments," stipulates that the UK is accountable for its portion of EU Budget commitments made during its participation in the EU Budget for the 2014-20 Multiannual Financial Framework (ending in December 2020).

The RAL represents EU budgetary commitments that have been made and are anticipated to result in future payments by the EU. Commitments that are later decommitted, such as in cases where the associated programme does not proceed, are excluded from the RAL. The UK is only obligated to cover a share of the RAL at the close of 2020 to the extent that it materializes as payments by the EU.

The UK's liability under Article 140 will be reduced by various factors, including net financial corrections, proceeds from any Member State Making Available Resources infringements, and adjustments related to Traditional Own Resources.

EU Financial Settlement: Article 142 – Union Liabilities at End 2020

Article 142 of the Withdrawal Agreement, titled "Union Liabilities at End 2020," outlines that the UK is responsible for a portion of the EU's expenditures related to employment and associated benefits accrued by EU employees up until the end of 2020. These benefits predominantly include pension schemes and the Joint Sickness Insurance Scheme (JSIS).

It's important to note that the UK was always obligated to cover these benefits. The expenditure to settle in-year benefits is undertaken by the EU, and consequently, by all Member States as part of their budgetary contributions. With the UK's departure from the EU, the Withdrawal Agreement essentially established a liability for the UK, necessitating HM Treasury to make provisions for future cash outflows.

PPF provision

Pension Protection Fund (PFF) £27.7 billion (2020-21: £28.9 billion)

This represents the sum held by the PPF in connection with its responsibilities for compensating members and addressing claims from pension schemes. The PPF retains control of the assets from the pension plans it intervenes in and generates investment growth to uphold the obligations it assumes. Over the year to 31 March 2022, assets increased by £1.33 billion, and liabilities decreased by £1.05 billion. The reduction in liabilities was mainly due to a decrease of £1.03 billion due to changes in market yields over the year and a decrease of £0.19 billion due to changes in mortality assumptions. This was partially offset by an increase of £0.25 billion due to actual inflation being higher than expected.

Other provisions

Other provisions encompass a diverse range of allocations spread across the public sector. These encompass provisions pertaining to injury benefits, medical expenses, compensation for criminal injuries, legal costs, obligatory acquisitions, concessionary fuel allowances for former miners, mine water treatment, public safety and subsidence, subsidence pumping stations, and tip management. They also cover claims relating to structural damage and depreciation in the value of properties affected by transportation projects, as well as compensation payouts for job terminations. The largest provision relates to oil and gas field decommissioning costs in HMRC.

Oil and gas field decommissioning costs £10.4 billion (2020-21: £9.5 billion)

Companies engaged in oil and gas exploration and production on the UK Continental Shelf (UKCS) face two taxes: Petroleum Revenue Tax (PRT) and offshore Corporation Tax (CT). The latter tax consists of two components: Ring-fenced Corporation Tax and Supplementary Charge.

Regarding the treatment of decommissioning costs, the Oil Taxation Act 1975 governs the handling of losses. Participators in an oil and gas field subject to PRT can carry-back decommissioning losses virtually indefinitely, offsetting them against profits previously generated from the field or profits made by previous participators. This provision may lead to the repayment of PRT.

In the case of offshore CT, the Corporation Tax Act 2010 permits a company's decommissioning loss to be carried back against its own historical profits dating back to April 2002. Once again, this provision has the potential to result in a repayment of offshore CT.

The provision is calculated as the appropriately discounted total of all projected decommissioning repayments expected to occur over the lifespan of the North Sea oil and gas fields. These repayment profiles are generated using HMRC's North Sea Forecasting Model, which is developed at both the individual company and field levels. There have been no significant alterations to the model since the previous year.

In 2021-22, a provision of £10.4 billion has been reported. This is based on HMRC's estimated tax repayments, which include £2.1 billion in Petroleum Revenue Tax (2020-21: £3.3 billion) and £8.3 billion in offshore Corporation Tax (2020-21: £6.2 billion), that will be disbursed to companies by HMRC up until 2065 due to losses from decommissioning expenses.

The primary factors influencing the provision estimate encompass future decommissioning costs from the North Sea Transition Authority's Asset Stewardship Survey, economic determinants (including oil and gas prices, production, and the US Dollar/Sterling exchange rate) from the Office for Budget Responsibility and the Department for Business, Energy and Industrial Strategy (BEIS), as well as the discount rates provided by HM Treasury.

There has been a £0.9 billion increase in the overall provision compared to the previous year. This rise is primarily attributed to higher decommissioning expenditure in nominal terms, as well as alterations in discount rates. These were partially offset by the impact of higher forecasted oil and gas prices in the short to medium term, which led to a reduction in the provision.

The provision utilised during the year pertains to the tax repayments in 2021 to 2022, attributable to decommissioning expenditure.

Boundary adjustment

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £0.5 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.3 billion to the note this year, giving a net decrease of £0.2 billion due to missing data.

Note 23. Financial instruments

This financial instrument note has two parts. The first part provides information on the significance of financial instruments on the government's balance sheet. The second part provides information about the nature and extent of risks arising from financial instruments and what the government does to manage and mitigate these risks.

Financial assets by category 2021-22

	Note	Cash and cash equivalents £bn	Amortised Cost £bn	FVTPL* £bn	FVTOCI* £bn	2021-22 Total £bn	2020-21 Total £bn
Cash and cash equivalents	18	45.6	-	-	-	45.6	39.6
Trade and other receivables	15	-	215.6	-	-	215.6	202.9
Debt securities	16	-	-	112.9	-	112.9	129.0
Loans and deposits (including REPOS)	16	-	318.3	18.7	5.2	342.2	253.0
Student loans	16	-	-	111.6	-	111.6	87.8
Equity investments	16	-	0.6	22.3	23.5	46.4	44.8
IMF quota subscription	16	-	-	21.2	-	21.2	20.8
IMF Special Drawing Rights	16	-	-	33.8	-	33.8	12.4
Other	16	-	7.2	48.6	0.9	56.7	57.9
Total financial assets		**45.6**	**541.7**	**369.1**	**29.6**	**986.0**	**848.2**

*FVTPL: Fair Value Through Profit or Loss

*FVTOCI: Fair Value Through Other Comprehensive Income

Most **debt securities** (£73.8 billion, 2020-21: £81.8 billion) are held in the EEA, and comprise the UK's official holding of international reserves. The government holds foreign currency reserves on a precautionary basis to meet current policy objectives to regulate the exchange value of sterling and any potential future changes in policy.

Other significant financial assets include those lent under the Funding for Lending Scheme (FLS). Under FLS participating banks and building societies can borrow Treasury Bills from the Bank of England in exchange for eligible collateral. As at 31 March 2022, on an amortised cost basis, £0.0 billion (2020-21: £0.3 billion) of Treasury Bills issued for the FLS were outstanding; further details are available from the accounts of both the National Loans Fund and the Bank of England.

Balances with the IMF are made up of the IMF quota subscription (£21.2 billion, 2020-21: £20.8 billion) and IMF Special Drawing Rights (SDRs) (£33.8 billion, 2020-21: £12.4 billion). SDRs are an international reserve asset created by the IMF. SDRs represent a claim to currency held by IMF member countries for which they may be exchanged. The government's holdings result from SDR allocations made by the IMF, any subsequent purchases and sales of SDRs from or to other IMF members and fair value changes.

A significant balance within **other financial instruments** is derivatives (£14.4 billion, 2020-21: £9.5 billion). Of the derivatives balance the largest individual material balances are with the Pension Protection Fund (PPF) (£10.6 billion, 2020-21: £6.0 billion), and EEA (£2.8 billion, 2020-21: £3.1 billion). The PPF manage the risks associated with this by using counterparties rated at least A- (or subject to increased collateral) and are subject to overall exposure limits. The EEA manage the risks associated with this by counterparty and issuer limits and collateralisation. Further details can be found in the PPF and EEA accounts. Other significant balances (£18.4 billion, 2020-21: £18.0 billion) include investments in Help to Buy; this represents an entitlement to future income from the assistance provided to homebuyers by Department for Levelling Up, Housing and Communities.

The government also has gold holdings which are treated as being like a financial asset and are reported at fair value based on the sterling equivalent of the dollar denominated spot bid price as at 31 March 2022. During 2021-22, the price of gold rose from £1,235 to £1,474 per ounce, an increase of 19% giving rise to a revaluation profit of £2.4 billion.

Financial liabilities by category 2021-22

	Note	Carried at amortised cost £bn	FVTPL* £bn	2021-22 Total £bn	2020-21 Total £bn
Trade and other payables	19	212.6	-	212.6	221.3
Government borrowings	20	1,575.7	-	1,575.7	1,520.3
Deposits by banks	21	837.5	50.4	887.9	814.9
Banknotes in circulation	21	86.4	-	86.4	84.7
Bank and other borrowings	21	73.6	-	73.6	79.9
Derivatives	21	-	39.6	39.6	27.3
Debt securities	21	6.9	-	6.9	4.5
IMF Special Drawing Rights liability	21	-	30.9	30.9	10.4
Financial guarantees	21	14.9	0.2	15.1	20.3
Other	21	193.6	-	193.6	76.8
Total financial liabilities		**3,001.2**	**121.1**	**3,122.3**	**2,860.4**

*FVTPL: Fair Value Through Profit or Loss

In most cases the value of assets and liabilities shown on the statement of financial position either equals or is a reasonable approximation of fair value. The main exceptions are government borrowings and the Contracts for Differences (CfD) liability (included in derivatives in the table above). Gilt-edged securities have a carrying amount of £1,333.4 billion (2020-21: £1,264.7 billion) and a fair value of £1,540.2 billion (2020-21: £1,545.21 billion), reflecting the higher amount that investors are willing to pay in order to secure a certain level of interest payment. The CfD liability has a carrying value of £16.4 billion (2020-21: £15.7 billion) and a fair value of £36.2 billion (2020-21: £36.9 billion). All CfDs (incl Hinkley Point C (HPC)) are issued at £nil consideration through the CfD process, this being the deemed transaction price. The difference between fair value of the instrument at initial recognition (day one) and transaction price is deferred unless the fair value at initial recognition is based upon observable inputs (which is not currently the case). The decrease of £0.7 billion in fair value is mainly due to revisions to the wholesale price electricity forecasts that are expected to be achieved by generators and payments made during the 2021-22 year. The best estimate of fair value as at 31 March 2022 for the HPC liability is £61.4 billion (2020-21: £52.0 billion). Further details can be found in the Department for Business, Energy and Industry Strategy (BEIS) annual report and accounts, and in Note 2 of WGA. Other financial liabilities includes £192.4 billion of TFSME funding.

Fair value hierarchy

Assets and liabilities carried at fair value are valued using a 'fair value hierarchy' which gives highest priority to quoted prices in active markets for identical instruments (level 1 inputs), second priority to valuation techniques based on observable inputs (level 2) and lowest priority to valuation techniques using unobservable inputs. Where valuation techniques are based on unobservable inputs (level 3) then the appropriate valuation technique is chosen, including use of discounting of future cash flows and the use of the net asset values underlying the unquoted equity investment. The table below summarises asset and liability fair values based on the valuation technique used.

Fair value hierarchy 2021-22

	Level 1 £bn	Level 2 £bn	Level 3 £bn	2021-22 Total £bn	2020-21 Total £bn
Financial assets at fair value:					
Debt securities	99.5	6.9	6.5	112.9	129.0
Equity investments	20.2	4.7	20.9	45.8	43.3
IMF quota	-	21.2	-	21.2	20.8
IMF Special Drawing Rights	33.8	-	-	33.8	12.4
Loans and deposits (including REPO)	-	17.9	6.0	23.9	17.7
Student loans	-	-	111.6	111.6	87.8
Other	3.5	18.4	27.6	49.5	52.7
Financial liabilities at fair value:					
Deposits by banks	-	(50.4)	-	(50.4)	(45.8)
IMF SDR Allocation	(30.9)	-	-	(30.9)	(10.4)
Financial Guarantees	-	-	(0.2)	(0.2)	(0.4)
Derivatives	-	(12.5)	(27.1)	(39.6)	(27.3)
Other	-	-	-	-	(0.1)

The most significant individual level 3 assets balance is student loans which is not observable market data. Further details can be found in the annual report and accounts of the Department for Education. Second is the CfD contracts which use a discounted cash flow methodology, further details can be found in the annual report and accounts of BEIS.

The most significant level 1 asset within equity investments is in the NatWest (formerly Royal Bank of Scotland (RBS)) relating to HMT's holding of the NatWest ordinary shares. The valuation of this asset changes based on the movement of the market. Further details can be found in the accounts of HMT.

Liquidity risk

The government's objective when funding its activities is to minimise, over the long term, the costs of meeting the government's financing needs considering risk, while ensuring that debt management policy is consistent with the aims of monetary policy.

Each year, the government assesses the costs and risks associated with different possible patterns of debt issuance, considering the most up-to-date evidence and information about market conditions and demand for debt instruments. This information is used to set the Debt Management Office's (DMO's) financing remit which is published alongside the Budget and updated during the year to reflect changes to the government's cash requirements.

There is a risk that the government will need to roll over high levels of debt continuously, or redemptions will be concentrated in particular years; this risk is mitigated by taking decisions which spread gilt issuance along a maturity spectrum.

DMO's issuance profile used in 2021-22 is summarised below:

	Short conventional (0-7 years)	Medium conventional (7-15 years)	Long conventional (over 15 years)	Index linked	Unallocated
2021-22 debt issuance	27%	28%	31%	14%	0%

Local authorities adopt independent liquidity risk management, and this is done within a statutory framework. Local authorities are required by the Local Government Finance Act 1992 to provide a balanced budget, which ensures enough funds are raised to cover annual expenditure. Medium term plans generally set targets for liquidity ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities can access borrowings from the money markets to cover any day-to-day cash flow need and can access longer term funds from financial institutions or from the government's Public Works Loan Board. Balances between the Public Works Loan Board and local authorities are eliminated on consolidation within WGA.

Interest rate risk

At present, annual debt management decisions are made in the context of an elevated level of debt relative to gross domestic product (GDP) and high government borrowing. The government takes annual decisions that enhance fiscal decisions by a) mitigating refinancing risk, that is, the need to roll over high levels of debt continuously and to avoid concentrating redemptions in particular years, by taking decisions which spread gilt issuance along the maturity spectrum, b) encouraging the liquidity and efficiency of the gilt market and c) maintaining a diversity of exposure, both real and nominal, across the maturity spectrum, reflecting its preference for a balanced portfolio. As a result, subject to cost-effective financing, the government has decided to maintain a relatively long average maturity in the debt portfolio to limit exposure to refinancing risk and has also issued an appropriate balance of conventional and index-linked gilts over a range of maturities, taking account of structural demand, the diversity of the investor base and the government's preferences for inflation exposure. The government is exposed to cash flow interest rate risk on its remaining floating-rate investments and borrowings.

The most significant floating rate investments and borrowings are index-linked gilts and National Savings & Investments (NS&I) products, debt issued by Network Rail and student loans. Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk. Deposits from banks and other financial institutions held by the Bank of England was £971.2 billion (2020-21: £803.8 billion).

Index-linked gilts expose the government to both interest rate risk and inflation risk whereby interest and redemption amounts paid on index-linked gilts vary monthly in line with changes in RPI. If interest rates were to increase by 100 basis points then this would increase the government's borrowing costs by £2.3 billion (2020-21: £1.8 billion) and if RPI were to increase by 100 basis points then the government's borrowing costs would rise by £5.8 billion (2020-21: £5.2 billion). An element of this would be eliminated within the government boundary.

Network Rail has a combination of fixed, floating and index-linked debt issuances. As with the government's gilt portfolio, this gives rise to interest rate risk and inflation risk. Considering the impact on fair-valued debt issuances and the derivatives Network Rail uses to manage interest rate risk, if interest rates were to increase by 100 basis points then this would decrease Network Rail's net expenditure by £0.2 billion (2020-21: £0.2 billion decrease) and if the RPI were to increase by 100 basis points then Network Rail's net expenditure would increase by £0.2 billion (2020-21: £0.2 billion increase).

Student loans – RPI and Bank of England base rate

Sensitivity analysis of **RPI**:

	2021-22 £bn
Carrying value	**97.9**
Increase RPI by 1%	(9.2)
Decrease RPI by 1%	9.6
Increase RPI by 2%	(17.8)
Decrease RPI by 2%	19.9

*Department for Education – Students Loan only

RPI has fluctuated significantly since the pandemic, after a period of being broadly stable (at between 2-4%) in the three years beforehand. The rate dipped to 0.5% in August 2020, rose to 1.5% as at March 2021, has since risen to 9.0% at the year end and continued to rise to 12.3% in August 2022.

An increase in RPI leads to:

- a higher discount rate, which will lower the carrying value of loan books
- increased interest on borrowers' balances in the following year for Plan 2 and postgraduate Plan 3 loans
- increased interest for Plan 1 loans, unless RPI is higher than the base rate +1%, in which case RPI does not determine the interest rate
- increased repayment threshold for Plan 1 loans, which results in lower repayments

The outturn for March 2022 RPI for 2021-22 is 9.0% and is forecast to rise to 10.0% by March 2023, then stabilise at 2.9% in the long-term (2020-21: 1.5%, forecast to rise to 2.9% over the long-term). Long-term is considered to be 30 years for these purposes. The table above shows the impact of a 1 or 2% change to each RPI forecast in each of the forecast cash flow years. An increase in RPI reduces the valuation of the loan book, and a decrease in RPI increases the valuation.

The percentage movements above are not against the year end RPI value. The +/- margins are against the OBR's central forecast of RPI which was used in the year end valuation modelling across the full 30-year life of the loans.

Sensitivity analysis of **Bank of England base rate**:

	2021-22 £bn
Carrying value	**97.9**
Increase RPI by 1%	0.3
Decrease RPI by 1%	(0.5)
Increase RPI by 2%	0.6
Decrease RPI by 2%	(0.8)

The Bank of England base rate has been held at below 1% since 2009 when it reduced to 0.5% and has been increasing since December 2021 to combat rising inflation, rising to 1.25% in June 2022.

A higher base rate will increase interest for Plan 1 loans, unless RPI is lower than the base rate +1%, in which case the loan interest rate is determined by RPI. The base rate only impacts Plan 1 loans and not other plan types.

The OBR outturn for the Bank of England base rate in March 2022 was 0.75% (March 2021: 0.1%), and this is forecast to rise to between 3% and 4% in the long-term (2020-21: 4.00% and 4.17% in the long-term). The table above shows that changes to the base rate would have a minimal impact on the valuation of the loan book, which is due to the impacts being restricted to Plan 1 and restricted further to interest on Plan 1 loans. Further information is available from the DfE published accounts.

Credit risk

The categories of financial assets with inherent significant credit risks are: loans and deposits (£342.2 billion) and student loans (£116.6 billion).

Loans and deposits previously it comprised loans provided through the Term Funding Scheme (TFS) of £Nil billion (2020-21: £39.5 billion). The Term Funding Scheme (TFS) fully matured in February 2022. TFS loans were cash loans made to eligible participants financed by the issuance of central bank reserves, secured against eligible collateral. The term of each loan was four years; participants can terminate, in part or in full, before the maturity date. The Bank of England manages credit risk by ensuring that exposures are fully backed by collateral, with appropriate adjustments made between the asset market value and the value that can be used for collateral purposes. The range of collateral can include mortgage-backed securities, covered bonds with preferential terms backed by a pool of mortgages or public sector securities, or portfolios of loans in unsecured form. The collateral must meet published eligibility criteria. A summary of eligible criteria is available on the Bank of England website, and further details can be found in the Bank of England annual report and accounts.

New Term Funding scheme for small to medium enterprises Term Funding Scheme with additional incentives for SMEs was £192.4 billion (2020-21: £75.4 billion). In March 2020, the Bank's policy committees announced a comprehensive package of measures to help UK businesses and households manage the economic disruption caused by the Covid virus. Part of this package involved the launch of the Term Funding Scheme with additional incentives for SMEs (TFSME). The TFSME is designed to:

- help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefit from the MPC's actions;
- provide participants with a cost-effective source of funding to support additional lending to the real economy, providing insurance against adverse conditions in bank funding markets;
- incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption; and
- provide additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.

The drawdown period ran until 31 October 2021, or 30 April 2021 for participants which opted out of the TFSME extension. The term of each transaction is for four years from the date of drawdown. Participants in a TFSME Group that contains one or more accredited lenders under the British Business Bank's Bounce Back Loan Scheme (BBLS) will be able to extend the term of some transactions to align with the term of loans made through the BBLS. Participants may terminate any transaction, in part or in full, before its maturity date. The Bank charges interest on TFSME transactions equal to Bank Rate plus a Scheme fee (TFSME Fee). The fee is determined based on the net lending of each participant over the reference period of the scheme. This fee ranges from 0 basis points to 25 basis points. The reference period ran from 31 December 2019 to 30 June 2021, or 31 December 2020 Bank of England Page 140 for participants which opted out of the TFSME extension. TFSME scheme fees arising on lending are recognised as income on an accruals basis. TFSME income reflects Bank Rate on TFSME loans and £5.5mn (2020-21: £ nil) scheme fees receivable in the year. TFSME scheme fees are retained by the Bank as income.

A further £89.0 billion (2020-21: £85.9 billion) of loans and deposits arise from reverse sale and repurchase agreements (REPOS). These agreements are mainly entered into by the Bank of England, DMA, and EEA. Exposures to credit risk are fully collateralised and assets held as collateral are revalued daily. The government returns collateral to the provider of collateral, or requests additional collateral, depending on whether the value of collateral has risen or fallen. Details on collateral held under these agreements can be found in the accounts of the Bank of England, the DMA and the EEA.

Student loans are a source of a credit risk. Eligible students can get loans regardless of their credit rating in order to support the policy aim of encouraging students to enter higher and further education. There is no obligation to repay the loan until the borrower's income reaches a certain income threshold and there are other circumstances when the loan will be written off, for example based on the age of the student. Therefore, even though most repayments are collected by HMRC as part of the tax collection process, not all the loans will be repaid.

The total balance sheet value of student loans provided by government, including those via the devolved administrations, is £111.6 billion (2020-21: £87.8 billion). The Department for Education, representing English students, holds £97.9 billion (2020-21: £77.5 billion). The face value of the Department for Education's loan book was £178.5 billion (2020-21: £156.8 billion face value).

Changes in the modelling assumptions

Note 12.4 of the DfE accounts provide more details on the modelling assumptions used to calculate the closing value of student loans. In the year two new models have been implemented: the long-term earnings model and new repayments model. The revised long-term earnings model addresses forecasts of earnings 11+ years post-statutory repayment due date and reflects improved data on earnings. In the year more accurate data became available via Longitudinal Employment Outcomes and HMRC, as well as some of the forecasting techniques within the data science field. The new model has also meant moving to a new model platform and methodology, which supports identification of the cost of particular degree and student types and much more effective quality assurance processes. The data used in the 2020-21 valuation relied on self-reported earnings from a combination of the British Household Panel Survey (a longitudinal survey from 1990-2008) and the Labour Force Survey (2001-2014). The data was best available and suitable for the 2020-21 valuation cycle, However, the age of the data suggested that it might be becoming less optimal for continued use. As well as the age of the data, there was concern over the quality of the data – it was known that survey respondents could overstate their earnings, response rates were declining, and the Labour Force Survey excluded information on self-reported income. Consequently, the Department identified the better newly available data sources mentioned above for use in this year's valuation

Changes in the categorisation of Student Loans

Loans for students in higher education and further education are originated and recognised by the Department. The Department's student loans can be split into different repayment plans depending upon which education sector the borrowers were members of and when the loans were taken out. The plans are as follows:

- Plan 1 loans – loans taken out for undergraduate courses that started before 1 September 2012 (previously called Pre-2012 loans)
- Plan 2 loans – loans taken out for undergraduate courses that started on or after 1 September 2012, including advanced learner loans
- Plan 3 loans – loans for postgraduate master's courses starting on or after 1 August 2016 and postgraduate doctoral courses starting on or after 1 August 2018.

The impact of credit risk and policy decisions on repayment conditions on all Department for Education student loans are shown by the following table of fair value assets:

	2021-22 Balance sheet value £bn	2021-22 Face Value £bn	2020-21 Balance sheet value £bn	2020-21 Face Value £bn
Undergraduate Plan 1	15.0	29.3	18.5	30.7
Undergraduate Plan 2	78.8	144.9	55.8	122.7
Postgraduate Plan 3	4.1	4.3	3.2	3.4
Total student loans held by Department for Education	**97.9**	**178.5**	**77.5**	**156.8**

Under IFRS 9, student loans are recognised at fair value. In determining the fair value of student loans, the Department has used a discounted cash flow model, and this includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is recognised in the SoCNE. The face value is made up of the opening face value, plus additions and capitalised interest, and less repayments and write-offs. Face value excludes fair value adjustments.

Following the adoption of IFRS 9 **expected credit loss** (ECL) "forward-looking model", it is no longer necessary for a loss event to have occurred before credit losses are recognised. WGA entities are required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to both debt instruments accounted for at amortised cost and at FVTOCI. The figures below do not include financial assets with an ECL of zero and therefore do not match those presented elsewhere in this note.

Expected Credit Loss for assets held at amortised cost						
Financial assets impaired	**Gross financial assets**	**Stage 1**	**Stage 2**	**Stage 3**	**Simplified Impairment rule**	**Net financial assets**
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Trade and other receivables	46.4	-	-	-	(31.7)	14.7
Loans held at amortised costs	237.2	0.6	-	-	-	237.8
Total financial assets	**283.6**	**0.6**	**-**	**-**	**(31.7)**	**252.5**

Stage 1: all ECLs relating to loans held at amortised cost (£0.6 billion) are classified as Stage 1 which means these assets have no significant increase in credit risk since the asset's origination.

Stage 2: assets for which there has been a significant increase in credit risk since the asset's origination the impairment provision reflected full lifetime ECL.

Stage 3: assets which are in default, interest income is recognised only in respect of the balance net of impairment.

The above table illustrates:

- The WGA note most affected by the changes to the impairment of financial assets, under IFRS 9, is Note 15 (Trade and other receivables).
- Entities should apply the simplified expected credit loss model approach to trade receivables. Contract assets and lease receivables, when they meet certain criteria, shall always measure the loss allowance at an amount equal to lifetime expected credit loss. WGA entities can select their own accounting policy for trade receivables, lease receivables and contract assets independently. In 2021-22, WGA entities have £31.7 billion expected credit loss under trade and other receivables.
- Most of loans held at amortised cost consist of £192.4 billion for the new TFS for small and medium enterprises.
- The Bank of England manages credit risk associated with these loans by ensuring that exposures are fully backed by collateral.

Foreign currency assets inevitably carry some element of credit risk. In order to keep this risk at a low level, the government predominantly invests in securities issued, or guaranteed by, the national governments of the United States, Euro area countries and Japan. The EEA debt securities are held at an equivalent external rating of AA and above (£67.3 billion, 2020-21: £76.7 billion) and A to AA (£6.5 billion, 2020-21: £5.1 billion) and were held within Europe (£24.5 billion, 2020-21: £31.9 billion), North America (£44.0 billion, 2020-21: £45.5 billion), and Asia-Pacific (£5.3 billion, 2020-21: £4.3 billion). Further details on the government's credit risk management of foreign currency reserves can be found in the 2021-22 Exchange Equalisation Account.

Foreign exchange rate risk

The government is mainly exposed to foreign exchange risk on the UK's official holdings of international reserves ('the Official Reserves'). Foreign currency reserves are held on a precautionary basis that could be used, when necessary, to regulate the exchange value of sterling, and is the mechanism through which any UK government exchange rate intervention would be conducted, for example in the event of any unexpected shocks.

The **Official Reserves** comprise two components: reserves that are hedged for currency and interest rate risk ('the hedged reserves'), and the remaining reserves which are unhedged for currency and interest rate risk ('the unhedged reserves'). The Official Reserves comprises assets held by the Exchange Equalisation Account (EEA) consisting of the UK's reserves of gold, foreign currency assets, and IMF SDRs, and assets held in the National Loan Fund (NLF) comprising the UK's Reserve Tranche Position at the IMF and lending to the IMF.

The Treasury has appointed the Bank of England to act as its agent in the day-to-day management of the EEA in accordance with an agreed framework and to manage the foreign currency assets and liabilities associated with the reserves of the NLF. The Bank of England monitors and controls market risk primarily by using a Value at Risk (VaR) model. This estimates a loss level that will not be exceeded at a specified confidence level, over a defined period, so that losses will not exceed the VaR figure in 99 out of 100 two-week periods.

The Bank calculates the VaR on benchmark reserves on an annual basis. The values of the benchmark reserves are based on market-to-market prices at the end of the period.

Benchmark reserves

	2022 $ Million	2021 $ Million
Hedged reserves		
Value at Risk (VaR) as at 31 March	92	65
Unhedged Reserves		
Value at Risk (VaR) as at 31 March	2,608	3,085

In addition to foreign currency reserves, the government is exposed to foreign exchange risk through the UK's transactions with the IMF. The UK's quota subscription and lending to the IMF are both denominated in SDR and are subject to valuation adjustments by the IMF. The UK's liabilities to the IMF, although denominated in sterling, are also subject to valuation adjustments by the IMF.

In 2018-19, investments in financial institutions primarily related to the value of the UK's capital investment in the European Investment Bank (EIB) of £9.9 billion as based on the UK's share of the EIB's net assets in euros. Therefore, the government was exposed to foreign exchange rate risk on the fair value of this equity investment. On 31 January 2020 the UK left the EU under the terms of the Withdrawal Agreement. Article 150 of the Withdrawal Agreement provides for the return of the UK's paid-in capital in the EIB, as it stood at the point of withdrawal. The resulting asset is recognised as a receivable. As a result, the EIB asset has been reclassified from non-current investment to receivable. This has also led to a change in the measurement basis of the asset, reflecting that the UK 's interest is no longer in the performance of the net assets of the EIB but rather in the reimbursement of historic contributions.

Article 150 of the Withdrawal Agreement provides for the return of the UK's paid-in capital in the EIB, as it stood at the point of withdrawal. The first instalment (£272 million) one of twelve instalments was received in October 2020. In accordance with the clear line of sight principle, the EIB asset was transferred from the Consolidated Fund to HM Treasury in 2020-21 with the effective date of 31 March 2021. HM Treasury's estimate of the fair value of the receipts under Article 150 is £2.062 billion (2020-21: £2.254 billion).

Price risk

The government is exposed to price risk on its shareholding in NatWest. The fair value of these UK listed shares fluctuates as a result of changes in market prices. Market prices for a share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market. UK Government Investments (UKGI - a wholly owned subsidiary of HM Treasury) is responsible for the development and execution of an investment strategy for disposing of the investments in NatWest in an orderly and active way, within the context of protecting and creating value for the taxpayer.

Note 24. Public sector pensions

Pension liabilities

The public sector pension liabilities are summarised in the following table with figures separated out for each of the workforces. The table also shows the percentage change in the net liabilities between 2020-21 and 2021-22.

	Scheme liabilities £bn	Scheme assets £bn	2021-22 Net liabilities £bn	2020-21 Net liabilities £bn	Change in Net scheme liabilities %
Unfunded schemes:					
NHS	1,004.9	-	1,004.9	791.9	26.9
Teachers	608.0	-	608.0	501.0	21.4
Civil Service	377.1	-	377.1	339.4	11.1
Armed Forces	279.1	-	279.1	254.0	9.9
Police	163.4	-	163.4	176.4	(7.4)
Royal Mail	50.9	-	50.9	48.6	4.7
Fire	33.9	-	33.9	33.0	2.7
Other unfunded	22.0	-	22.0	23.8	(7.6)
	2,539.3	**-**	**2,539.3**	**2,168.1**	**17.1**
Funded schemes:					
Local government	323.7	(247.1)	76.6	111.7	(31.4)
Other funded	125.7	(102.5)	23.2	26.4	(12.1)
	449.4	**(349.6)**	**99.8**	**138.1**	**(27.7)**
Total	**2,988.7**	**(349.6)**	**2,639.1**	**2,306.2**	**14.4**

The Local Government Pensions Scheme (LGPS) is the largest funded scheme. There are just under 100 LGPS funds across the UK with 86 funds in England and Wales, 11 in Scotland and 1 in Northern Ireland. The individual local authority employers that contributed to these funds recognised their proportion of the scheme liabilities in their statement of accounts. The local government funded schemes balance disclosed above includes the portion of the pension liability of the LGPS that was reported in the financial accounts of the individual local authority employers.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £33.7 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission last year. These entities contributed a total of £153.1 billion to the note this year, with the major contributors being the Scottish NHS and Teachers Pension Schemes. The published accounts for these entities reported their pensions scheme liabilities, as at 31 March 2022, to be £95.1 billion (2020-21: £86.9 billion) and £53.5 billion (2020-21: £48.2 billion), respectively. The net increase as a result of missing data is therefore £119.4 billion.

The overall unfunded schemes by category have been impacted by some significant increase in scheme liabilities, entities not submitting data for 2021-22 having submitted in 2020-21 and entities submitting for 2021-22 not having submitted in 2020-21. The combined liabilities total of the NHS Pension Schemes has increased by £213.0 billion due to the Scottish NHS (£95.1 billion) submitting data for 2021-22 and increases in scheme liabilities for the Northern Ireland NHS of £5.2 billion and England/Wales NHS of £112.8 billion. The combined liabilities totals for the Teachers Pension Schemes has increased by £107.0 billion due to the Scottish Teachers (£53.5 billion) submitting data for 2021-22 and increases to the scheme liabilities for England/Wales Teachers of £51.3 billion and Northern Ireland Teachers £2.2 billion. Further details are available from the superannuation accounts for each scheme. The combined liabilities total of the Police Pension Schemes has fallen by £13.0 billion as 5 Police and Crime Commissioners and Police Constables (£17.4 billion) have not submitted data for 2021-22; this has been offset by the submission of 1 new Police and Crime Commissioner and Police Constable in 2021-22 (Northants £1.4 billion) and increases in liabilities in other submitting entities.

Other unfunded schemes include schemes within the UK Atomic Energy Authority Pension Scheme of £9.4 billion (2020-21: £8.8 billion); and the Research Councils Pension Scheme (RCPS) £7.2 billion (2020-21: £6.7 billion).

Other Funded schemes comprise largely of net liability balances reported by Academy schools £17.9 billion (2020-21: £13.9 billion); Department for Transport - including Network Rail £4.0 billion (2020-21: £5.2 billion); Transport for London £3.1 billion (2020-21: £5.5 billion), and Birmingham City Council £2.7 billion (2020-21: £3.3 billion). It also includes other pension scheme liabilities for bodies within the WGA boundary which are not local authorities. The overall net liability on funded schemes has fallen by £38.3 billion to £99.8 billion (2020-21: £138.1 billion) as the value of scheme assets has risen by £8.9 billion to £349.6 billion (2020-21: £340.7 billion) whilst the value of liabilities has fallen by £29.4 billion to £449.4 billion (2020-21: £478.8 billion).

In addition to updates provided in annual accounts, public sector pension schemes carry out periodic full actuarial valuations which are used to set employer contribution rates. The last full actuarial valuations for the majority of the unfunded pension schemes were carried out as at 31 March 2016, which set the employer contribution rates for a 5-year period from 1 April 2019. A further valuation took place in October 2020 but the figures presented are based on the previous valuation; this is due to interactions with wider pension policies, in particular the McCloud remedy, and changes resulting from the 2020 valuations have been delayed until April 2024.

Increase in pension liabilities

The table below breaks down the changes in the present value of gross scheme liabilities over the financial year.

	Unfunded £bn	Funded £bn	Total 2021-22 £bn	Total 2020-21 £bn
Gross liability at 1 April	2,168.1	478.8	2,646.9	2,527.0
Restatement	1.2	(0.8)	0.4	(3.2)
Boundary adjustment	116.8	(30.6)	86.2	(212.8)
Current service costs (net of participants' contribution)	89.0	16.5	105.5	78.5
Past service costs	0.4	0.1	0.5	0.4
Settlements/curtailments	0.3	(0.2)	0.1	-
Interest on scheme liabilities	30.1	8.9	39.0	44.2
Contribution by scheme participants	11.3	2.0	13.3	11.7
(Gains)/Losses on revaluation:				
Experience (gains) and losses arising on liabilities	2.1	(2.3)	(0.2)	(1.5)
Changes in assumptions underlying the value of liabilities	167.0	(16.5)	150.5	254.6
Benefits paid	(45.8)	(10.4)	(56.2)	(53.6)
Transfers in/(out)	(1.2)	3.9	2.7	1.6
Gross liability at 31 March	**2,539.3**	**449.4**	**2,988.7**	**2,646.9**

The boundary adjustment reflects the impact of entities who did not submitted data for 2020-21 but did submit data for 2021-22 as referenced above.

Overall, the net public sector pension liability increased by £332.9 billion during the year. This is broken down as follows:

	2021-22 £bn	2020-21 £bn
Net liability at 1 April	2,306.2	2,189.5
Restatement	0.3	(3.2)
Boundary adjustment	106.8	(158.6)
Net (gains)/losses on revaluation	133.9	217.2
Current service costs (net of participants' contributions)	105.5	78.5
Net interest costs	28.3	24.1
Unfunded schemes benefits paid	(45.8)	(43.4)
Past service costs	0.5	0.4
Net settlements/curtailments	0.1	0.6
Contribution by unfunded scheme participants	11.3	9.6
Contribution by funded scheme employers	(7.5)	(9.5)
Net transfers in/(out)	(0.5)	1.0
Net liability at 31 March	**2,639.1**	**2,306.2**

As summarised in the above tables, the change in the net pension liability is largely dictated by four factors:

- the revaluation gain or loss, which at this year-end increases the liability as a loss was recognised
- the current service costs which increase the liability
- the net interest costs which increase the liability
- the benefits paid from the unfunded schemes which reduce the liability

This volatility in the revaluation gain or loss is predominantly due to the change in assumptions, in particular the discount rate net of inflation and demographic assumptions. The discount rate for central government unfunded schemes is based on yields of high quality (AA) corporate bonds. The return on corporate bonds is only used to discount the future benefit payments to the present day, therefore whilst movement in the assumption has a significant impact on the liability figure in the accounts from year to year, as shown by the sensitivity analysis, it does not influence the level of benefits received by the members.

The key financial assumptions are shown in Note 2.6 and show that, for the central government unfunded schemes, the (net of CPI) discount rate decreased from (0.95)% in 31 March 2021 to (1.3)% in 31 March 2022. The decrease in discount rate increases the present value of liabilities. This actuarial loss from the discount rate is recognised in other comprehensive income rather than against net expenditure. The increase in liability from the change in discount rate was accompanied by other changes in other assumptions, leading to an overall revaluation loss that increased the liability.

The table below shows the approximate sensitivity of the **unfunded liability** to changes in key assumptions. Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability. The sensitivity will be similar for the gross liability of the funded schemes.

	% change in value of unfunded liability	£bn change in unfunded liability
Increasing the assumption by 0.5% a year:		
Discount rate	(11%)	(279)
Rate of increase in pensions	11%	279
Rate of increase in Salaries	2%	51
Increasing assumed life expectancy in retirement by 1 year	4%	102

The **current service cost** is an estimate made by scheme actuaries of the benefits earned by employees in the year.

The **net interest cost** reflects the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the net liability. The expense from unwinding the discount rate is recognised against net expenditure.

Past service costs reflect changes in the present value of scheme liabilities related to employee service in prior periods that arise in the current period as a result of changes to retirement benefits.

Pension assets

Funded pension schemes hold the following assets:

	Local government £bn	Other funded £bn	2021-22 Total £bn	2020-21 Total £bn
Equity investments	138.7	39.9	178.6	179.4
Bonds	36.5	28.8	65.3	67.2
Other	72.0	33.7	105.7	94.1
Total market value	247.2	102.4	349.6	340.7

The 'other' balance consisted of property, cash and other alternative assets, such as hedge funds and private equity, diversified growth funds, or infrastructure investments, which have varying levels of performance.

Increase in pension assets

The table below breaks down the increase in the fair value of funded scheme assets over the financial year.

	2021-22 £bn	2020-21 £bn
Gross assets at 1 April	340.7	337.5
Boundary Adjustment	(20.6)	(54.1)
Restatements	0.1	-
Interest on scheme assets	10.7	20.1
Actual return less interest on scheme assets	16.4	35.8
Contributions by employers	7.5	9.5
Contributions by scheme participants	2.0	2.1
Benefits paid	(10.4)	(10.9)
Transfers in/out	3.2	0.7
Gross assets at 31 March	**349.6**	**340.7**

Amounts recognised in the financial statements

Amounts recognised in the Statement of Revenue and Expenditure are as follows:

	Unfunded £bn	Funded (net) £bn	2021-22 Total £bn	2020-21 Total £bn
Current service cost	89.0	16.5	105.5	78.5
Past service cost	0.4	0.1	0.5	0.4
Settlements/ curtailments	0.3	(0.2)	0.1	-
Net financing cost	30.1	8.9	39.0	44.2
Total recognised in the Statement of Revenue and Expenditure	**119.8**	**25.3**	**145.1**	**123.1**

Note 25. Capital commitments

	2021-22 £bn	2020-21 £bn
Capital commitments at year end	53.3	53.4
Total capital commitments	**53.3**	**53.4**

Capital commitments represent forthcoming commitments to capital expenditure that have been contracted but are not yet reflected in the financial statements. For the fiscal year 2021-22, the total stood at £53.3 billion (2020 21: £53.4 billion).

The most notable capital commitments in 2021-22 were reported by the Ministry of Defence, amounting to £24.4 billion (2020-21: £23.1 billion), and the Department for Transport (DFT) with £6.7 billion (2020-21: £6.2 billion).

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £1.8 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.7 billion to the note this year, giving a net decrease of £1.1 billion.

Note 26. Commitments under leases

Operating leases

Total future minimum payments under operating leases are given in the table below, analysed according to the period in which the lease expires.

	2021-22 £bn	2020-21 £bn
Obligations under operating leases comprised:		
Total payments within one year	2.8	3.0
Total payments between one and five years	7.0	7.5
Total payments thereafter	16.4	10.9
Total future minimum lease payments under operating leases	26.2	21.4

There has been a £4.8 billion increase in operating leases, from £21.4 billion in 2020-21 to £26.2 billion in 2021-22, mainly driven by an increase of £4.9 billion in operating leases greater than 5 years for the Home Office; this followed a review of the end dates of operating leases.

The most significant operating leases relate to the Home Office at £5.3 billion (2020-21: £0.3 billion), the Department of Health and Social Care at £4.0 billion (2020-21: £3.5 billion), HMRC at £2.1 billion (2020-21: £1.9 billion), and the Department for Work and Pensions at £2.0 billion (2020-21: £1.8 billion).

There were a number of entities which contributed to the operating leases total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £0.4 billion to this note's operating leases total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.2 billion to operating leases this year, giving a net decrease of £0.2 billion.

Finance leases

Total future minimum payments under finance leases are given in the table below, analysed according to the period in which the lease expires.

	2021-22 £bn	2020-21 £bn
Obligations under finance leases comprised:		
Total payments within one year	0.7	0.7
Total payments between one and five years	2.4	2.2
Total payments thereafter	19.3	20.3
Total	22.4	23.2
Less interest element	(15.1)	(15.9)
Total present value of obligations	7.3	7.3

There has been no movement in the total present value of obligations, at £7.3 billion in both 2020-21 and 2021-22. The BBC with £1.7billion (2020-21: £1.8 billion), and the MOD with £1.6 billion (2020-21: £1.6 billion) are the largest contributors.

There were a number of entities which contributed to the finance leases total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £0.2 billion to this note's finance leases total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.1 billion to finance leases this year, giving a net decrease of £0.1 billion.

Note 27. Commitments under Private Finance Initiative (PFI) contracts

PFI contracts recognised on the Statement of Financial Position

The substance of PFI contracts is that they have three elements: repayments of capital and interest (together representing a finance lease liability), and annual service charges.

As of 2018 PFI contracts were discontinued leading to a decline in the number of contracts, and therefore a decline in obligation figures, as these contracts expire in future years. The net book value of PFI assets, on the other hand, has increased despite contracts expiring, as shown in Note 12.

PFI assets are recognised on the Statement of Financial Position where the government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the asset at the end of the contract. The net book value of PFI assets included in the Statement of Financial Position was £68.8 billion (2020-21: £66.3 billion) as at 31 March 2022. The PFI liability for the present value of capital amounts payable was £30.2 billion (2020-21: £32.6 billion).The net present value of PFI obligations is recognised as a liability on the Statement of Financial Position as £30.2 billion whereas in the table below £30.6 billion has been reported. This is because interest charges and annual service charges are not recognised as liabilities in the Statement of Financial Position and are disclosed as commitments. These amounts will be recognised in the Statement of Revenue and Expenditure in the year they become due. The net present value of PFI obligations represents the liability for capital repayments. The most significant net present value of future finance lease obligations balance of £9.9 billion (2020-21: £10.2 billion) are held by the Department of Health and Social Care and £3.6 billion (2020-21: £4.0 billion) are held by the Ministry of Defence.

The most significant total annual service charges balance of £21.0 billion (2020-21: £21.2 billion) are held by the Department of Health and Social Care, £9.5 billion (2020-21: £10.6 billion) are held by the Ministry of Defence and £6.8 billion (2020-21: £7.3 billion) are held by the Department for Transport.

Details of the underlying finance lease liability are given in the table below:

	2021-22 £bn	2020-21 £bn
Obligations for future periods arise in the following periods:		
No later than one year	3.9	4.1
Later than one year and not later than five years	14.1	15.0
Later than five years	34.9	38.9
Gross present value of future finance lease obligations	**52.9**	**58.0**
Less interest charges allocated to future periods	(22.3)	(25.3)
Net present value of future finance lease obligations	**30.6**	**32.7**

Details of the minimum annual service charge are given in the table below:

	2021-22 £bn	2020-21 £bn
Obligations for future periods arise in the following periods:		
No later than one year	4.8	4.9
Later than one year and not later than five years	17.3	18.1
Later than five years	42.0	47.0
Total annual service charges	**64.1**	**70.0**

The PFI obligations by segment of government were:

	2021-22 £bn	2020-21 £bn
Central government departments and entities within the NHS	34.1	36.5
Local authorities	18.1	20.9
Public corporations	0.7	0.6
Gross present value of future finance lease obligations	**52.9**	**58.0**

There were a number of entities which contributed to this note through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £1.6 billion of finance lease liabilities and £3.2 billion of annual service charge obligations to this note last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.9 billion of finance lease liabilities and £1.2 billion of annual service charge obligations to the note this year, giving a net decrease of £0.7 billion for finance lease liabilities and £2.0 billion for annual service charge obligations.

PFI contracts not recognised on the Statement of Financial Position

During the 2021-22 financial year, some WGA entities had PFI contracts which were not recognised on the Statement of Financial Position. This is because the private sector contractor was, on balance, considered to have greater control over the use of the asset.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership asset. It concluded that there are none with a significant value that should be included in the 2021-22 WGA that are not already consolidated.

Note 28. Other financial commitments

	2021-22 £bn	2020-21 £bn
Financial commitments expiring in future years:		
No later than one year	31.4	34.2
Later than one year and not later than five years	47.1	35.4
Later than five years	12.2	10.4
Total other financial commitments	**90.7**	**80.0**

Other Financial Commitments relate to non-cancellable contracts which are not leases, PFI contracts, or other service concession arrangements.

The year-on-year increase in financial commitments is £10.7 billion. There are individual increases and decreases within that total. This includes significant commitment increases from the Ministry of Defence of £6.9 billion for contracts relating to equipment support, estate maintenance, and information and communications support. The Department for Levelling Up, Housing and Communities showed the second highest increase in its commitments of £3.9 billion which was primarily due to Homes England entering into commitments due to the launch of the Affordable Homes 2021-26 programme.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. These entities contributed a total of £3.8 billion to this note's total last year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. These entities contributed a total of £0.2 billion to the note this year, giving a net decrease of £3.6 billion.

Note 29. Contingent liabilities disclosed under IAS 37

Quantifiable contingent liabilities

Total quantifiable contingent liabilities are as follows:

	2021-22 £bn	2020-21 £bn
Clinical negligence	75.2	48.9
Nuclear Decommissioning	16.7	-
Taxes subject to change	3.2	3.1
Foreign, Commonwealth and Development Office (FCDO)	2.5	3.0
Department for Work and Pensions	2.0	1.4
Transport infrastructure projects	2.0	2.1
Ministry of Defence (MOD)	1.3	1.6
HM Treasury	1.2	1.6
Pension Protection Fund (PPF)	0.6	0.8
Other	2.3	3.6
Total quantifiable contingent liabilities	**107.0**	**66.1**

The contingent liabilities total has increased significantly, by £40.9 billion, from 2020-21 to 2021-22. The most significant contribution to this is an increase in the clinical negligence total of £26.3 billion, largely in the Department of Health and Social Care (DHSC). There is also a new £16.7 billion nuclear decommissioning related contingent liability reported by the Department for Business, Energy and Industrial Strategy (BEIS) this year. Further details are below.

Contributors to the 2021-22 “Other” total include the Scottish Government (£0.7 billion, 2020-21: £0.5 billion), the Department for Culture, Media and Sport (£ 0.6 billion, 2020-21: £0.5 billion), and the Department of Health and Social Care (£0.3 billion, 2020-21: £0.4 billion).

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. In both cases, these entities contributed less than £0.1 billion to the note in each year, so the figures shown above are not impacted by missing data.

Individually significant contingent liabilities are detailed below:

Entity	Contingent Liability	2021-22 £bn	2020-21 £bn
Department of Health and Social Care	The Department of Health and Social Care (DHSC) is the actual or potential defendant in a number of actions regarding alleged clinical negligence, liabilities relating to the NHS property or third parties. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is a large degree of uncertainty as to DHSC's liability and the amounts involved. Possible total expenditure, assuming that damage payments were awarded on all claims rather than assessing the probability of damages being paid, might be estimated at £73.4 billion (2020-21: £47.2 billion), although £70.8 billion (2020-21: £44.3 billion) relating to the Clinical Negligence Scheme for Trusts (CNST) would be expected to be met by payments from NHS providers. The Clinical Negligence contingent liability total is estimated by DHSC alongside that of the Clinical Negligence provision. The difference between the gross value of claims and the amount of the estimated future liability which is accounted for as a provision is discounted, taking into account the likely time to settlement, and is included in contingent liabilities. Clinical negligence related liabilities are particularly sensitive to the long term and very long-term discount rates. This reflects the long-term nature of the liabilities which is driven by the reporting and settlement delays, as well as the fact that many high value claims are settled as a Periodical Payment Order (PPO) with payments provided over the remaining lifetime of the claimant. In 2021-22, there was a significant reduction in the long term and very long-term discount rates prescribed by HM Treasury, which increased both the provision and the contingent liability significantly. Although the change in discount rates prescribed by HM Treasury has a material effect on the value of the liabilities, it does not alter the cost of settling claims in the short-term – which is driven by the frequency and severity of claims and the legal environment in which the claims are settled. As such the £26.2 billion increase in the contingent liability reflects a change in the way the liabilities are	73.4	47.2

	valued, rather than a change in the underlying liabilities. Please also note that the DHSC current and prior year totals are lower than the "clinical negligence" total in the table above because other WGA entities also report contingent liabilities relating to clinical negligence. This included £1.3 billion reported by the Welsh Government (2020-21: £1.3 billion).		
Nuclear Liabilities Fund via the Department for Business, Energy and Industrial Strategy (BEIS) accounts.	On 23 June 2021 the Nuclear Decommissioning Authority (NDA), the Government, and EDF Energy, entered into new decommissioning arrangements for seven Advanced Gas-cooled Reactor (AGR) stations in which the Government has directed NDA to take on the future ownership of the stations for decommissioning. The work will be undertaken by the NDA subsidiary, Magnox Limited. The NDA will recognise the estimated future liability in its financial statements for each of the stations at the respective points at which NDA takes ownership. The liability will ultimately be met by the Nuclear Liabilities Fund. The completion and timing of the transfer of ownership is currently uncertain and contingent on the fulfilment of a number of conditions by the parties involved. The NDA therefore recognises a contingent liability for the future decommissioning costs of the stations. This has been estimated by the current owner of the stations at £16.7 billion (undiscounted) in its most recently published financial statements.	16.7	-
HM Revenue & Customs (HMRC)	HMRC is engaged in a number of legal and other disputes which can result in claims by taxpayers against HMRC. This covers a range of cases, including Corporation Tax, Income Tax and VAT. As at 31 March 2022, HMRC had seven cases estimated to have a value of £3.2 billion (2020-21: 5 cases estimated at £3.1 billion) where potential tax repayment before losses, capital allowances and other tax reliefs is over £100 million.	3.2	3.1
Foreign, Commonwealth and Development Office (FCDO)	FCDO holds a number of contingent liabilities, but the largest of £2.3 billion (2020-21: £2.9 billion) are liabilities in respect of contributions due to international Financial Institutions (IFIs). The movement in the year is due to previous amounts crystalising. The FCDO expects a high proportion of this amount to crystalise as a liability in the coming years.	2.5	3.0

The Department for Work and Pensions (DWP)	DWP has ongoing legal cases (judicial reviews and appeals) which may lead to possible obligations where DWP is facing legal challenge through the courts, to the policy behind legislation. The outcomes will depend on court rulings. In some cases, until further rulings are received, a reliable estimate is not always possible. Further disclosure of the details of the cases or the ranges is not provided as, in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), DWP considers that the disclosure of values for any legal contingent liabilities could be expected to seriously prejudice ongoing litigation. As at 31 March 2022, DWP is aware of five cases it considers to be a contingent liability, of which four can be reliably estimated at £2.0 billion.	2.0	1.4
Department for Transport (DfT)	DFT holds a number of contingent liabilities relating to transport infrastructure projects. The most significant of these (£1.2 billion, 2020-21: £1.3 billion) relates to a commitment by DFT to fund any shortfall of toll revenue from the Mersey Gateway Bridge to meet Halton Council's financial obligations under the Demand Management Participation Agreement. DFT also holds combined contingent liabilities of £0.5 billion (2020-21: £0.5 billion) in relation to the High Speed (HS1 and HS2) rail links.	2.0	2.1
Ministry of Defence (MoD)	MoD holds a number of contingent liabilities in relation to contractors, legal claims and environmental clean-up costs. However, details of the most significant element of £1.0 billion have not been disclosed due to reasons of commercial confidentiality and / or national security.	1.3	1.6

Non-quantifiable contingent liabilities

Contingent liabilities may not be quantifiable due to a variety of reasons. This includes the possibility of multiple scenarios and permutations (potentially involving complex and changing technology), and the variety and the uncertainty surrounding the events that may lead to crystallisation of any obligation. In some scenarios objective evidence to support valuations of contingent liabilities is not available and hence they cannot be measured with sufficient reliability.

Commitments in relation to pension scheme deficits

Non-quantifiable contingent liabilities have arisen as a result of commitments made by several WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded.

Ministry of Defence

The Ministry of Defence has a number of non-quantifiable contingent liabilities which include: potential costs yet to be identified of decontamination work on sites; potential liabilities that arise from in-service mortality rates in excess of those covered by the Service Life Insurance scheme; potential liabilities relating to environmental and safety responsibility for a large number of shipwrecks both in UK waters and globally; and losses or claims in relation to the International Ocean Towage Agreement. Further details of these non-quantifiable contingent liabilities can be found in the Ministry of Defence's 2021-22 annual report and accounts.

Liabilities in respect of the Covid-19 Vaccination Programme

The Department of Health and Social Care (DHSC) holds contingent liabilities relating to contracts signed with Pfizer/BioNTech, with AstraZeneca/Oxford, and with Moderna, for their Covid-19 vaccines.

DHSC also has further contingent liabilities relating to the Covid-19 vaccine programme.

Legal claims

Non-quantifiable contingent liabilities have arisen as a result of several legal claims, compensation claims, and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Benefits underpayments

Distinct from legal cases, the Department for Work and Pensions (DWP) acknowledges that administrative errors (termed official error) by its staff will sometimes result in the underpayment of benefit. Where underpayments relating to official error are identified, DWP pay arrears in full at the earliest opportunity.

Through annual review of fraud and error statistics, DWP has an estimate of official error both for the current year, and prior years from equivalent exercises. For 2021-22, DWP estimates in year underpayments of £1.1 billion. These estimates are based on statistical samples; as a result, DWP does not hold a full list of underpaid benefits cases that it can correct. DWP cannot quantify the cumulative historic liability which may exist due to limitations in data. Therefore, a contingent liability exists for underpayments not yet found and corrected.

At present there is no mechanism by which DWP can calculate the value of historic official error corrected in year, to support an overall quantification of the outstanding liability. DWP will review processes and data sources available with a view to quantifying this liability in future.

Underwrite of the Commonwealth Games

The UK government was successful in its bid for the 2022 Commonwealth Games. As part of the successful bid to host the Games, the Department for Digital, Culture, Media and Sport (DCMS) took on a contingent liability by guaranteeing to financially underwrite the organisation and staging of the Games. As such, DCMS would meet any potential financial shortfall of the Birmingham Organising Committee for the 2022 Commonwealth Games Ltd. As at 31 March 2022, any liability was unquantifiable.

In addition, the Commonwealth Games Federation required a series of guarantees from central and local government to support the planning and delivery of the Games. The underwrite and guarantees were disclosed to Parliament in a Departmental Minute in October 2017.

These contingent liabilities had previously been classified as remote, and were disclosed in WGA Note 30 last year.

Customs undervaluation case

Due to the timings of producing the WGA, we are aware of significant developments in this issue since 31 March 2022. The case has now been settled so is no longer a contingent liability. It has however been included here as it was still classed as a contingent liability as at the date of these accounts. The following information is based on the 2022-23 Consolidated Fund (CF) accounts, which were published in October 2023.

In March 2018, the European Commission alleged that from 2011 to 2017 the UK did not take adequate steps to prevent customs undervaluation fraud involving imports of Chinese textiles and footwear and that customs duty was therefore owed to the EU. In March 2022, the European Court of Justice published its judgement, finding against the UK on most liability points. The UK made payments totalling €2.6 billion (£2.3 billion) in June 2022, January 2023, and February 2023 to cover both principal and interest. These payments were made from the CF and formally settled the case, with the UK fulfilling its international obligations as notified to Parliament on 9 February 2023.

Quantifiable Contingent Assets

IAS 37 – Provisions, contingent liabilities and contingent assets – requires the disclosure of contingent assets, defined as:

- A possible asset that arises from past events, and
- Whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

Contingent assets are not recognised but are disclosed where an inflow of economic benefit is probable. Once the realisation of income is certain, the asset is no longer a contingent asset and is recognised at this time.

Individually significant Contingent Assets reported by WGA entities in 2021-22 are detailed below:

Entity	Contingent Asset	2021-22 £bn	2020-21 Restated £bn
HM Treasury	Under Article 141 of the Withdrawal Agreement the UK is entitled to a share of EU fine income that relates to activity up to the end of 2020 (and in some cases after this period) including where collection of the fine income arises post UK exit. A contingent asset is disclosed in relation to the fine income where the likelihood of cash inflow is dependent on the EU successfully winning the case and this likelihood is assessed to be probable. Following the end of the transition period, the contingent assets under this article that are not the subject of ongoing litigation are no longer contingent and have been classed as Trade and other receivables. The value is estimated based on fines issued by the EU, but not yet definitive and adjusted for fines expected to be issued relating to the period based on past performance. HM Treasury's current best estimate of the contingent asset related to fine income is around £1.5bn (2020-21: £1.5bn).	1.5	1.5
Other	Other Contingent Assets	0.5	0.2
Total Quantifiable Contingent Assets		**2.0**	**1.7**

The 2020-21 Contingent Assets total was disclosed as £3.5 billion in last year's WGA. This had included a £1.8 billion contingent asset which the Department for Business, Energy and Industrial Strategy (BEIS) holds in relation to the British Coal Staff Superannuation Scheme (BCSSS). However, the BCSSS is internal to the WGA, so this amount should not have been included in WGA totals. The above prior year comparator figure has therefore been adjusted to remove this amount.

There were a number of entities which contributed to the note total through their data submissions in 2020-21, but which did not make a submission to the WGA this year. Similarly, there were also a number of entities which made contributions to the note this year but did not make a submission in 2020-21. In both cases, these entities contributed less than £0.1 billion to the note in each year, so the figures shown above are not impacted by missing data.

Note 30. Remote contingent liabilities reported to Parliament

In addition to the contingent liabilities reported in Note 29, government departments additionally disclose contingent liabilities where the risk of the liability crystallising is remote. These remote contingent liabilities are not required to be disclosed under accounting standards but are reported here on the basis that guarantees, indemnities and letters of comfort are a source of financial risk.

Quantifiable remote contingent liabilities

The potential costs of the government's quantifiable remote contingent liabilities are as follows:

	1 April Total	Increase / (Decrease) in year	Liabilities crystallised in year	Obligations expired in year	31 March 2022 Total
	£bn	£bn	£bn	£bn	£bn
Pension Protection Fund (PPF) remote contingent liabilities	140.0	(60.5)	-	(19.5)	60.0
Guarantees (excluding European Investment Bank (EIB))	26.0	2.1	(0.1)	(0.5)	27.5
Indemnities	33.5	4.7	-	(0.8)	37.4
Letters of comfort	33.6	-	-	(10.2)	23.4
EIB Guarantees	30.7	-	-	-	30.7
Total remote contingent liabilities	**263.8**	**(53.7)**	**(0.1)**	**(31.0)**	**179.0**

The decrease of £84.8 billion in this note's total is almost entirely due to Pension Protection Fund (PPF) contingent liabilities decreasing by £80 billion year-on year. There was also a decrease of £10.2 billion in Letters of Comfort values reported by HM Treasury, partially offset by a £4.0 billion increase in the total value of indemnities reported by the Department for Digital, Culture, Media and Sport (DCMS). Please see the table below for more details.

There is no impact on the note total from entities which made data submissions in 2020-21, but which did not make a submission to the WGA this year, and also no impact from entities which submitted this year but not in 2020-21.

Individually significant remote contingent liabilities are detailed below:

Entity	Contingent Liability	2021-22 £bn	2020-21 £bn
Pension Protection Fund (PPF)	**Pension Protection Fund (PPF) contingent liabilities** Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2022 is estimated at £60 billion, calculated on the same basis as for the PPF 7800 index. The PPF 7800 Index is an established official statistic which has been published by the PPF since 2007. It indicates the latest estimated funding position for the defined benefit (DB) pension schemes in the PPF's eligible universe. The reported remote contingent liability therefore increases or decreases in line with changes to the index. The significant decrease in value this year is therefore due to changes in the PPF 7800 index.	60.0	140.0
HM Treasury	**Guarantees – European Investment Bank (EIB)** The UK is liable for callable capital to the EIB. The terms of this are set out in Article 150 of the EU Withdrawal Agreement. The UK's liability is limited to the callable and returned paid in capital the UK held as a member state. Any calls on contingent liabilities which take place after 31 March 2021 will be funded by HM Treasury through the supply process.	30.7	30.7
Foreign, Commonwealth and Development Office (FCDO)	**Guarantees** £14.8 billion of this Contingent liabilities total (2020-21 £14.2 billion) relates to callable capital on investments in International Financial Institutions (IFIs). These are subject to call only when required and to the extent necessary to meet the obligations of the IFIs on borrowings of funds or guarantees. The equity base of each IFI allows the institutions to meet their financial objectives by absorbing risk out of their own resources and protecting member countries from a possible call on callable capital. No call has ever been made on the IFIs' callable capital stock to date.	15.0	14.5
HM Treasury (Consolidated Fund account)	**Guarantees - Coins** The Consolidated Fund (CF) holds a remote contingent liability for the value of UK coins in circulation. As at 31 March 2022. the estimated total face value of coins in circulation was £4.7 billion (2020-21 £4.7 billion). The CF has a potential liability in respect of returned and damaged coins and if coins are redeemed. The value of returned, damaged and redeemed	4.7	4.7

	coins paid in 2021-22 was £13.2 million (2020- 21 £22.2 million). The probability of a material liability in respect of coinage is considered remote.		
Department for Digital, Culture, Media and Sport (DCMS)	**Indemnities** The figures shown include the Government Indemnity Scheme (GIS). The GIS indemnifies lenders to museums, galleries and other institutions in the UK when mounting exhibitions or taking long-term loans for either study or display. It is a statutory liability totalling £9.2bn (2020-21: £5.2bn). The change in contingent liabilities arising from these indemnity schemes is driven by the number and value of the works of art on loan and those on long term loan, which changes from year to year. The increase of £4.0 billion is mainly attributable to a net increase in loans to the National Gallery (£1.2bn); the Royal Academy (£1.0bn); and the Courtauld Gallery (£0.8bn).The prior year figure had also been impacted by Covid-19 and the closure of museums and galleries in line with Government restrictions.	9.5	5.5
Department for Education (DfE)	**Indemnities - Academy-sector PFI contracts** The figures shown relate to Private Finance Initiative (PFI) arrangements. These remote contingent liabilities arise as a result of DfE agreeing to provide an indemnity to local authorities for potential costs of PFI providers on buildings they own but manage through existing PFI arrangements. The properties are used by academies. While DfE's liability is with local authorities so internal to WGA from their perspective, ultimately the risk is that Local Authority entities could be required to pay private sector PFI providers. This contingent liability is therefore included in the WGA. This type of indemnity is considered low risk and is only a feature of the academy programme in very specific circumstances.	9.3	9.3
Department for Transport (DfT)	**Indemnities - Inter City Express Rolling Stock** In 2012 the Secretary of State agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the Inter City Express Rolling Stock contracts with Agility Consortium, and previously with Network Rail, covering the termination of the contract due to force majeure events and unavailability of commercial insurance. They expire in 2044.	5.9	5.9

Department for Transport (DfT)	**Indemnities - High Speed 1 (HS1)** The HS1 Concession Agreement specifies that compensation would be paid if the contract were terminated due to legal changes, either in the UK or Europe ('Change in Circumstances') or a change directed by another part of the Government ('Government Change'). The amount payable is formalised in the Agreement, but depends on the cause of the termination, and includes capital expenditure, increases in operating costs and losses of revenue.	4.1	4.0
HM Treasury	**Letters of Comfort** To facilitate each sale of UK Asset Resolution (UKAR's) Bradford and Bingley (B&B) and Northern Rock Asset Management (NRAM) assets, HM Treasury has offered certain market standard warranties that have created remote contingent liabilities. The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the warranties. Given their nature, such occurrence is considered remote. The year-on-year reduction of £10.2 billion is due to two items reported in the 2020-21 WGA which have now closed as a result of the final sale of the related assets. These had been related to sales of loan assets which had been announced on 26 April 2018 (2020-21: £5.3 billion) and 2 April 2019 (2020-21: £4.9 billion) respectively.	23.4	33.6

Non-quantifiable remote contingent liabilities

Remote contingent liabilities can also be unquantifiable. The most significant liabilities are detailed below:

EU Withdrawal Agreement

The UK left the European Union on 31 January 2020. HM Treasury continues to implement the financial settlement, as set out in the financial provisions of the Withdrawal Agreement. This represents a settlement of the UK's financial commitments to the EU and the EU's financial commitments to the UK, which result from the UK's participation in the EU budget, and other commitments relating to our former EU membership.

HM Treasury's quantifiable contingent liabilities related to the European Investment Bank (EIB) are disclosed above. In addition, HM Treasury discloses an unquantifiable remote contingent liability for any other liabilities that may ultimately fall to HM Treasury as result of the implementation of the Withdrawal Agreement.

Further information on the financial impact of EU Withdrawal Agreement is included in the WGA Performance Report, in the 2021-22 HM Treasury accounts, and in the European Union Finances publication series[34].

Environmental clean-up – oil and gas industry

The government has entered into Deeds with oil and gas companies to guarantee the basis on which tax relief for decommissioning is available.

As part of the terms of becoming a participator in a licence in the UK or UK Continental Shelf, companies have a statutory obligation to decommission their operations properly once oil and gas production has ceased.

The Deeds have been signed by the government and eligible companies, and provide companies with greater certainty in respect of decommissioning tax relief, supporting the government's objective of maximising economic production of oil and gas reserves in the UK Continental Shelf. They are designed to free up capital that companies would otherwise have held in reserve against possible changes in tax rules. In March 2022, Offshore Energies UK estimated that £8.3bn of capital had been unlocked for reinvestment as a result of the Deeds.

As at 31 March 2022, 101 Deeds had been signed and were in force (2020-21: 98). These Deeds indemnify the companies for changes in tax legislation or the default of joint-venture partners in respect of their decommissioning activities.

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

Environmental clean-up – Nuclear

The Department for Business, Energy and Industrial Strategy (BEIS) has the following remote contingent liabilities in place in relation to potential nuclear related environmental clean-up costs.

The Nuclear Liabilities Fund was established in 1996 to meet certain costs of decommissioning eight nuclear power plants in the UK that have been owned and operated by EDF Energy Nuclear Generation Limited since 2009. A constructive obligation was created in 2002 when the government undertook to underwrite the Fund in respect of these liabilities to the extent that the assets of the Fund might fall short; any surplus generated by the Fund would be paid over to the government once the liabilities have been met. The total undiscounted estimated liability as at 31 March 2022 of £24.7 billion (31 March 2021: £23.5 billion) has a present value of £51.9 billion (31 March 2021: £23.8 billion) which

[34] European Union Finances Statement 2022: Statement on the implementation of the Withdrawal and Trade and Cooperation Agreements - GOV.UK (www.gov.uk)

includes an allowance for future inflation. The value of the Fund as at 31 March 2022 is £20.4 billion (31 March 2021: £14.7 billion). It is not possible to quantify the extent to which the government may be obliged to contribute to the Fund, nor of any surplus that may arise, given the high level of uncertainty relating to estimation of decommissioning costs and investment returns on Fund assets over a future period exceeding 100 years.

Also, a contingent liability exists in relation to the costs of retrieving and disposing of sealed radioactive sources under the Environmental Permitting (England and Wales) Regulations 2016 in the event that a company keeping such sources becomes insolvent.

In addition to this, a contingent liability arises in relation to the remediation of land contaminated by a nuclear occurrence as it is deemed appropriate for BEIS to bear responsibility under section 9 of the Radioactive Contaminated Land (Modification of Enactments) (England) (Amendment) Regulations 2007 SI 2007/3245.

Other Nuclear

Indemnities have been given to UK Atomic Energy Authority by the Department for Business, Energy and Industrial Strategy (BEIS) to cover indemnities given to carriers and British Nuclear Fuels plc against certain claims for damage caused by nuclear matter in the course of carriage.

BEIS also has a statutory liability which would arise under the Nuclear Installations Act 1965 (as amended by the Nuclear Installations (Liability for Damage) Order 2016) for third-party claims in excess of the operator's liability in the event of a nuclear accident in the UK, as well as a contingent liability in relation to the possibility of claims for any exposure to ionising radiation arising from the fusion activities of the UK Atomic Energy Authority.

BEIS also provides protections in certain scenarios where the Hinkley Point C nuclear plant is shut down for reasons that are political or certain changes in law and insurance contracts.

Contingent liabilities for reinsurance arising from acts of terrorism

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies providing terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption in Great Britain who pay a portion of their income to HM Treasury. In the event of losses exceeding their available resources, HM Treasury would extend them a repayable loan.

The total reserves of Pool Re and of Pool Re (Nuclear) as at the date of their latest management accounts are £6.2 billion as at December 2021 (2020-21: £6.0 billion) and £32m as at December 2021 (December 2020: £32m) respectively. Maximum potential liabilities under this arrangement are considered unquantifiable as there is no past experience to use in forming an estimate, and the size and scale of a potential terrorist incident cannot be predicted. It is also considered remote that circumstances would arise requiring HM Treasury to provide such financial assistance. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Regional development banks and funds

The Foreign, Commonwealth and Development Office (FCDO) has entered into unquantifiable contingent liabilities relating to maintenance of the value of subscriptions paid to capital stock of regional development banks and funds. FCDO does not expect any liabilities to arise in relation to these contingent liabilities.

Department for Transport

The Department for Transport is party to a North Atlantic Treaty Organisation (NATO) agreement relating to indemnification of civil aircraft in respect of their use on NATO tasks in times of crisis and war.

Also, the department has a statutory responsibility for the maintenance of all railway structures. The contingent liability for this responsibility applies to legacy structures that have been sold to, and are controlled by, third parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

British Telecom (BT) pension scheme

When BT was privatised in 1984 the government gave a guarantee (contained in the Telecommunications Act 1984) in respect of certain liabilities of the privatised company. Following High Court and Court of Appeal proceedings on the terms and scope of the Crown Guarantee, which would only apply if BT were to enter insolvent winding-up, the contingent liability is approximately the size of the BT pension scheme (BTPS) deficit. The last triennial actuarial valuation of the pension scheme as at 30 June 2020 valued the deficit at £7.98 billion. BT has closed the BTPS for future accruals of benefit from 1 June 2018. As a result, the liabilities covered by the Crown guarantee will be limited to those relating to benefits accrued before that date (together with indexing and any legally required increments). These liabilities remain with BT plc and so legislation is no longer required on the scope of the guarantee. The contingent liability largely consists of the considerable deficit on the BTPS fund but, providing BT takes steps to reduce that, possible growth in the liability should now be limited.

Student loan sales

Each sale of student loans necessitated separate but similar warranties and indemnities to secure interest and obtain value for money from investors into the securitisation transactions. Each suite of obligations is separate from other sales, and there is no risk of cross-over, a failure for one sale does not automatically trigger failures for other sales.

Further details can be found in the accounts of the Department for Education.

Schools and academies

As a result of entering directly into a PFI arrangement for the building of schools (PF2), the Department for Education (DfE) has a number of contracts in place which have clauses that could give rise to a liability for DfE. These are considered by DfE to be remote and unquantifiable as they relate to breach of contractual conditions.

In addition to this, DfE has contracts for academy and free school site purchases, including a number of overage clauses. These are considered by DfE to be remote and unquantifiable as they relate to breach of, or change to, contractual conditions.

National Health Service

The Department of Health and Social Care (DHSC) has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There were 22 unquantifiable indemnities as at 31 March 2022, some of which were with entities within the DHSC group. None of these are contingent liabilities within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Further details can be found in the DHSC accounts.

BAE Systems PLC

Under section 9 of the British Aerospace Act 1980, the government is liable to discharge any outstanding liability of BAE Systems plc which vested in the company on 1 January 1981 in the event of it being wound up other than for the purpose of reconstruction or amalgamation.

UK Space Agency

UK Space Agency has an unquantifiable contingent liability arising from the international United Nations convention which requires the UK government to be ultimately liable for third party costs from accidental damage arising from UK space activities.

Ministry of Defence

Under contract terms, the Ministry of Defence (MOD) may indemnify or limit a contractor's liability in relation to a specific area. This includes damage to government property, damage to issued property, default, deferment, termination and indirect and consequential losses. This includes liabilities that are unquantifiable.

Indemnities have been provided to several companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965.

An unquantifiable indemnity has been issued to Rolls-Royce Submarines for the non-insurance of the Rolls-Royce Core Manufacturing Facility and the Neptune Test Reactor facility for death and personal injury to a third party.

The MOD also has other liabilities where details are not given due to reasons of commercial and / or national security. Some of these are unquantifiable.

Legal claims

Non-quantifiable remote contingent liabilities have arisen as a result of legal claims, compensation claims, and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Note 31. Related party transactions

Related parties in the context of WGA are public sector entities that would ordinarily be consolidated into WGA but have not been consolidated into the 2021-22 WGA. Further information regarding non-consolidated entities can be found in Annex 2 (section 2) and Annex 3 to the account.

NatWest Group is the most significant WGA related party. Although HM Treasury owns 48.0% of NatWest's share capital it is not consolidated within WGA. Dividends and other income received from NatWest are recorded in the Statement of Revenue and Expenditure (SoRE). A dividend of £0.4 billion (ordinary dividend of 7.5p per share) was paid to HM Treasury in May 2022, based on the government's shareholding as of 18 March 2022.

NatWest enters into transactions with many WGA bodies which include the payment of taxes – principally UK corporation tax and VAT, national insurance contributions, local authority rates, and regulatory fees and levies. For further details see the related parties note to the NatWest Group Annual Report and Accounts 2021. Note 2.1 sets out the estimated effect of excluding NatWest from the WGA consolidation, including estimated elimination adjustments. The estimated adjustment to assets of £179.4 billion and liabilities of £168.0 billion largely relates to cash held at the Bank of England by NatWest, together with NatWest's holdings of Treasury bills and UK debt securities.

In addition, during normal business, WGA entities entered arms-length banking transactions with NatWest, including loans, deposits, reimbursement of related expenses, payment of management fees, interest receipts and dividends. The volume and diversity of these transactions make comprehensive disclosure impractical.

Following on from the 2020-21 financial year 178 bodies did not submit their financial data for consolidation in time for WGA 2021-22, of which 157 were local authorities (see Note 1.3 for details). As these bodies are part of the public sector but not consolidated into WGA they are considered to be related parties, and had transactions and balances with consolidated entities which are material in aggregate.

The most significant balance is loan liabilities between the missing local government entities and the Public Works Loan Board (PWLB), which is consolidated into WGA. These receivables totalled £29.1 billion as at 31 March 2022, with the largest balance of £1.8 billion relating to Woking Borough Council. As entities which do not submit DCTs are treated as external to WGA, the related assets held by PWLB are not eliminated and therefore remain in the reported WGA totals.

Aside from PWLB, other bodies consolidated into WGA reported assets totalling £3.0 billion and liabilities totalling £4.8 billion where the counterparty did not submit data and so is a related party of WGA. WGA also recognises expenditure of £40.7 billion relating to bodies which did not submit data of which £35.2 billion of this expenditure consisted of grants to local government entities, with the largest contributors being the Department for Levelling Up, Housing and Communities (£10.6 billion), Department for Education (£9.8 billion), Department for Work and Pensions (£5.9 billion) and Scottish Government (£4.7 billion).

Local government entities consolidated into WGA had transactions with municipal ports, airports, and parish councils, primarily through the provision of funding. They also had transactions with local government pension schemes and record their share of the schemes' assets and liabilities in their accounts.

The twelve **train operating companies** from the 1st of April 2020 were reclassified by the ONS to public corporations. This was in response to the impact of Covid-19 on public transport where DfT implemented Emergency Measures Agreements (EMAs), now Emergency Recovery Measure Agreements (ERMAs) since September 2020. Implementation of the EMAs/ERMAs passed substantially all cost and revenue risk from the train companies to DfT.

DfT also owns 100% of the shares in LNER and Northern Trains Ltd (NTL). Although LNER and NTL operate under different agreements with DfT, the transactions between DfT and these companies have also been significantly impacted by Covid-19 and are therefore included in the table below for reference. From 17th October 2021 the Government took responsibility of operating passenger services in London and the South East therefore SE Trains Limited were activated.

Contract type with DfT in 2021-22	Expenditure for 2021-22 £bn	Expenditure for 2020-21 £bn
EMA and ERMA	4.0	7.1
Services agreement	1.1	1.4
Total	**5.1**	**8.5**

The train operating companies under EMAs and ERMAs operate the following contracts:

Company name	Operating contract
The Chiltern Railway Company Limited	Chiltern
XC Trains Limited	Cross Country
Abellio East Anglia Limited	East Anglia
Abellio East Midlands Limited	East Midlands
Trenitalia c2c Limited	Essex Thameside
First Greater Western Limited	Great Western
London and South Eastern Railway Limited	South Eastern
First MTR South Western Trains Limited	South Western
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern
First TransPennine Express Limited	TransPennine Express
First Trenitalia West Coast Rail Limited	West Coast Partnership
West Midlands Trains Limited	West Midlands

The three State-owned rail companies operate the following contracts under services agreements:

Company name	Operating contract
Northern Trains Limited	Northern
LNER Limited	East Coast
SE Trains Limited	South East

Note 32. Events after the reporting period

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

Bank of England Asset Purchase Facility

On the 28 April 2023 the Chancellor and the Governor of the Bank of England agreed to further reduce the authorised maximum size of the BEAPFF from £851 billion to £821.3 billion. This reduction reflected the continuing reduction in assets supported by the BEAPFF following the Bank's decision to unwind the BEAPFF in February 2022. The stock holdings as of 19 April 2023 were £815.3 billion of gilts and £6 billion of corporate bonds.

Cost of Living Package

In the 2023 Spring Budget speech the chancellor announced £94 billion worth of measures to support households between 2022-23 and 2023-24, with an average of £3,300 of cost-of-living help. The measures announced included the Energy Price Guarantee, one-off support and uprating benefits with inflation.

Recovery Loan Scheme

The Recovery Loan Scheme introduced in April 2021 was extended to borrowers on 1 August 2022, with deployment to be capped at £6 billion over the next two years. Scheduled to close in June 2024, it was extended until May 2026 in the 2024 Spring Budget and renamed the Growth Guarantee Scheme. It offers a 70% government guarantee on loans to SMEs of up £2 million in Great Britain, and £1 million for in Northern Ireland.

Energy Bills Support Scheme

On 29 July 2022, Department for Business, Energy & Industrial Strategy published funding details for licensed domestic electricity suppliers, to provide discounts or refunds to eligible domestic electricity customers, between October 2022 and March 2023. The discount covered a period of 6-months and cost £11.8 billion. It ended in March 2023.

Energy Price Guarantee

On 8 September 2022, the government announced the Energy Price Guarantee for domestic users on existing variable and fixed rate tariffs to take effect from 1 October 2022 across Great Britain and 1 November 2022 in Northern Ireland. From 1 July 2023, households without a prepayment meter no longer receive an Energy Price Guarantee discount on their gas and electricity bills. The Energy Price Guarantee is being used to align costs for comparable prepayment meter (PPM) and direct debit customers, ensuring that PPM users no longer pay a premium for their energy. A typical PPM customer will save around £40 per year and this saving is set to continue into the price cap period 1 January – 31 March 2024. During 2022-23 the Department for Business, Energy & Industrial Strategy recognised expenditure of £20.4 billion under this scheme.

Energy Bill Discount Scheme

The Energy Bill Discount Scheme (April 2023 - March 2024) replaces the Energy Bill Relief Scheme which ended in March 2023. The Energy Bill Relief scheme was announced on 21 September 2022, for non-domestic customers in Britain to run between 1 October 2022 and 31 March 2023, providing a discount on gas and electricity unit prices. The Department for Business, Energy & Industrial Strategy recognised expenditure of £7.5 billion the Energy Bill Relief Scheme.

Clinical Negligence provision

On 17 August 2022 the Government announced an interim compensation payment of £100,000 for victims of the infected blood scandal. The resultant expenditure of approximately £400 million will be included in the Department of Health and Social Care (DHSC) ARA for 2022-23. DHSC applied discount rates as notified by HM Treasury to estimated cash flows to calculate the clinical negligence provision at 31 March 2022. In December 2022, HM Treasury published new discount rates to be applied to estimated cash flows to calculate general provisions at 31 March 2023. If the revised rates had been applied to estimated cash flows at 31 March 2022, it is estimated that the clinical negligence provision would have reduced by an amount in the region of £63 billion. HM Treasury prescribe the rates to be applied at each year end.

NatWest

The government intends to fully dispose of its NatWest Group shareholding and expects the programme of sales to be completed by 2025-26 subject to market conditions and sales representing value for money. In May 2023, the government sold £1.26 billion worth of government-owned NatWest Group plc (formerly RBS) shares. The shareholding at February 2024 stands at around 33%.

McCloud remedy

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. The main purpose of the Act is to support implementation of the McCloud remedy in the public service pension schemes. The Government Actuary's Department calculated the cost of the McCloud Remedy at £19 billion across the UK public service pension scheme, when the 2016 valuations were completed, which are the most complete valuations available.

Department of Health Northern Ireland Pension Scheme

During 2021-22 legislation was introduced to close the legacy 1995 and 2008 sections of the Pension Scheme effective 1 April 2022. At 31 March 2022 the liability for the closed down schemes was £30 billion.

Reinforced Autoclaved Aerated Concrete (RAAC)

On 31 August 2023, the Department for Education (DfE) published updated guidance for responsible bodies of state funded education estates in England that have confirmed or suspected RAAC in their buildings. The guidance advised responsible bodies to vacate and restrict access to the spaces with confirmed RAAC. Spaces should remain out of use until appropriate mitigations are in place, even where they would have been deemed 'non-critical' previously.

This guidance is for leaders and staff in:

- local authorities (for community, voluntary-controlled schools, foundation schools and maintained nursery schools)
- academy trusts (for academies and free schools)
- governing bodies (for voluntary-aided schools)

It is also for school and college leaders, staff and governing bodies in further education colleges and designated institutions, sixth form colleges, maintained schools, academies and free schools, pupil referral units, city technology colleges, non-maintained special schools and maintained nursery schools.

This guidance does not cover:

- independent schools
- out of school settings
- maintained nurseries
- independent training providers

Academy school buildings

The Department for Education published a new policy paper in April 2022, Sustainability and climate change: a strategy for the education and children's services systems, which is expected to have a significant impact on build costs going forwards. This will impact costs for new academy school buildings, but as valuation is undertaken on a DRC basis, it is also anticipated to have a wider impact on the valuation of the existing estate. The effect on WGA has not been quantified but is expected to be material.

Machinery of Government

On 7 February 2023 the Prime Minister announced the formation of four new departments after disbanding BEIS:

- Department for Business and Trade (DBT) is established to champion free trade and promote investment.
- Department for Energy Security and Net Zero (DESNZ) is established to focus on sustainable and affordable long-term energy supplies.
- Department for Science, Innovation and Technology (DSIT) will inherit the Digital function from DCMS, and some Cabinet Office functions such as UK Space Agency, which will enable it to achieve its agenda for driving innovation.
- Department for Culture, Media and Sport (DCMS), has now been streamlined to focus on creative arts, following the separation of its Digital Function, now embedded in with DSIT.

On 1 April 2023 the functions of Health Education England were merged into NHS England.

National Loans Fund

On 23 September 2022 a revision to the Debt Management Office's Net Financing Requirement was announced, increasing in-year borrowing by £72.4 billion to £234.1 billion.

Transfer of Debt management function

On 30 Mar 2023 the Prime Minister announced the transfer of the Debt management function from Cabinet Office to HM Treasury to improve the management of debt owed to the government and provide strong expertise and leadership for the public servants in its profession.

Transfer of the Fraud Act function

On 30 March 2023 the Prime Minister announced the transfer of the Fraud Act function from Ministry of Justice to the Home Office to allow a single department to hold responsibility for policy and legislation relating to fraud against individuals and businesses, enabling the Home Office to best tackle fraud and reduce inefficiencies.

HS2 Phase 2

On 4th October 2023 the Prime Minister announced a change to the HS2 plans, redirecting costs from the Phase 2 HS2 rail line from Birmingham to Manchester, Leeds and York, and instead directing these costs to improve transport within the North and Midlands. A new plan named Network North is in place to fund a raft of transport projects focussing on better connectivity across rail, buses and roads.

Public Sector Pension Valuations

2020 funding valuation directions were delivered by HM Treasury in 2023. Public service pension valuations inform future contribution rates to be paid into the schemes by employers. As such, the valuation can have a significant impact on entity's pension assets and liabilities.

Restatement of Other Financial Commitments

Updated guidance on the disclosure of other financial commitments applied to the 2022-23 financial statements of many WGA components. As a result, several components restated the 2021-22 comparative figures shown in their 2022-23 financial statements, the most significant of which were Home Office (£11.3 billion decrease), Department of Health and Social Care (£3.7 billion increase) and Department for Transport (£0.7 billion increase). The impact of any restatements, including any adjustments for inter-public sector eliminations, will be reflected in the 2022-23 WGA.

Note 33. Gold holdings

	2021-22 £bn	2020-21 £bn
Opening balance	12.3	12.8
Additions	-	-
Impairments	-	-
Revaluations	2.4	(0.5)
Disposals	-	-
Total gold	**14.7**	**12.3**

The Exchange Equalisation Account (EEA) is an account that holds the UK's reserves of gold, foreign currencies and IMF Special Drawing Rights. During the 2021-22 financial year, the EEA revalued the monetary value of gold from £1,235 to £1,474 per ounce, a 19% increase. This has in turn given rise to a £2.4 billion revaluation increase, raising the value of total gold holdings to £14.7 billion.

There is no impact on the note total from entities which made data submissions in 2020-21, but which did not make a submission to the WGA this year, and also no impact from entities which submitted this year but not in 2020-21.

Note 34. Date authorised for issue

The financial statements were authorised for issue on the date of the Comptroller & Auditor General's report.

Chapter 5

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

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

Qualified opinion on financial statements

I certify that I have audited the financial statements of the Whole of Government Accounts (WGA) for the year ended 31 March 2022 under the Government Resources and Accounts Act 2000. The financial statements comprise the consolidated:

- Statement of Financial Position at 31 March 2022;
- Statement of Revenue and Expenditure, Statement of Comprehensive Income and Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes, including the significant accounting policies.

These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In my opinion, except for the effects and possible effects of the matters described in the Basis for qualified opinion on financial statements, the financial statements:

- give a true and fair view of the state of the Whole of Government's affairs as at 31 March 2022 and of its net expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of matter – nuclear decommissioning provisions

I draw attention to the disclosures made in Notes 2.7 and 22 to the financial statements concerning the uncertainties inherent in the nuclear decommissioning provisions. As set out in these notes, given the very long timescale involved and the complexity of the plants and material being handled, considerable uncertainty remains in the estimates of future costs, particularly in later years. Significant changes to the liability could occur as a result of subsequent information and events which are different from the current assumptions adopted by the Nuclear Decommissioning Authority. My opinion is not modified in respect of this matter.

Basis for qualified opinion on financial statements

Qualification arising from the non-consolidation of components designated to the public sector

HM Treasury has not consolidated 178 entities which they identified should have been consolidated but which did not submit data in 2021-22. Based on WGA 2020-21 or 2019-20 data, depending on when each entity last submitted a return, the estimated impact of this is at least £52.1bn on net liabilities (£74.3bn in 2020-21), including material understatement of property, plant and equipment by £112.6bn (£81.6bn in 2020-21), investment properties by £10.7bn (£7.6bn in 2020-21), net public sector pension liability by £67.4bn (£158.4bn in 2020-21) and current trade and other payables by £11.2bn (£8.4bn in 2020-21); and £28.8bn on net expenditure (£26.1bn in 2020-21) including material understatement of taxation revenue by £14.8bn (£11.7bn in 2020-21), other revenue by £20.8bn (£17.5bn in 2020-21), staff costs by £20.3bn (£19.0bn in 2020-21), and purchase of goods and services by £26.7bn (£19.6bn in 2020-21) and associated classification impacts.

The majority of missing entities are English local government bodies.

Given the materiality of these balances to the group I have qualified my opinion in this respect.

Qualification arising from the definition and application of the accounting boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the accounts should present a true and fair view and conform to generally accepted accounting practice, subject to such adaptations as are necessary. HM Treasury has adopted a financial reporting framework as set out in the Government Financial Reporting Manual which applies International Accounting Standards (IAS), as adapted for the public sector context

However, in Note 1.3 to the accounts, HM Treasury defines the accounting boundary with reference to those bodies classified as being in the public sector by the Office for National Statistics. It is my view that it would be more accurate to assess the accounting boundary with reference to the accounting standards which require the inclusion of bodies that are subject to control.

I also consider that HM Treasury's accounting policy regarding the basis of consolidation has not been applied consistently in the WGA. A number of significant bodies, including NatWest Group plc, have not been included in the accounts, even though they are classified by the Office for National Statistics as being in the public sector. I consider that these bodies should be included in the accounts in line with applicable accounting standards.

Although I cannot quantify the effect of these omissions on the accounts with certainty, as I do not have the information needed to identify the transactions that require elimination in order to produce a consolidated view of the accounts, I consider that significant transactions and balances have been omitted from the WGA in 2021-22 and from the 2020-21 comparatives. Most significantly affected would be the Statement of Financial Position. The following categories of bodies have been excluded from the WGA:

- NatWest Group plc, which, as at 31 December 2021, had gross assets of £782 billion and gross liabilities of £740.2 billion (gross assets of £799.5 billion and gross liabilities of £755.7 billion at 31 December 2020); and
- English Further Education Institutions.

Qualification arising from the inconsistent application of accounting policies

The financial reporting framework that the WGA must follow is set out in the Government Financial Reporting Manual which applies International Accounting Standards (IAS), as adapted for the public sector context. However, a number of bodies consolidated in the WGA do not adopt the same framework. The bodies where this represents a material inconsistency include bodies in the local government sector that follow the Code of Practice on Local Authority Accounting in the UK and bodies that follow pure IFRS.

Accounting standards require that where the effect of such inconsistent accounting policies is material, adjustments should be made upon consolidation. HM Treasury has not provided a full analysis of these differences and has not been able to quantify fully the impact of the different accounting frameworks or accounting policies on the WGA, but that impact is known to be material in 2021-22 and for the 2020-21 comparatives. The most significant example of inconsistent accounting policies concerns assets included in the WGA which have not been valued on a consistent basis, for example infrastructure assets held by local authorities are required to be valued at depreciated replacement cost (DRC) in the WGA but are valued at historic cost by local authorities under the Code of Practice on Local Authority Accounting in the UK.

Qualification arising from underlying statutory audits of bodies falling within the accounts

The external auditors of the financial statements of a number of bodies that are consolidated into the WGA qualified their audit opinions. Of these, one is significant to the WGA; the qualification of the accounts of the Department of Health and Social Care.

The qualification on the Department of Health and Social Care (DHSC) includes two areas which in aggregate are material to the WGA. The first is in relation to a lack of records in respect of inventory which led to an inability to assess £1.56bn write downs and £8bn inventory consumption during the year. DHSC was unable to perform stock takes or provide alternative evidence of the existence, valuation or completeness of inventory held at year end. As a result, I was unable to gain assurance over the accuracy of related expenditure at year end. The second is in relation to the disclaimer on UK Health Security Agency (UKHSA) 2021-22 accounts where I was unable to obtain sufficient, appropriate audit evidence to support the UKHSA total net expenditure of £9 billion and UKHSA total assets and liabilities of £0.4 billion and £0.9 billion.

Qualification arising from the consolidation of components with non-coterminous year ends

International Financial Reporting Standard 10 'Consolidated financial statements' (IFRS 10) presumes that, in order to present a true and fair view, the accounting reference date for component bodies consolidated into group accounts should be no more than three months different from the date of the group accounts. Where the accounting reference date is different, IFRS 10 requires that component bodies should prepare, for consolidation purposes, additional financial information as at the same date as the group accounts.

In preparing the WGA, HM Treasury has consolidated the Academies Sector Annual Report and Accounts (SARA) prepared by the Department for Education for the year to 31 August 2021. This represents a difference of seven months compared to the accounting reference date of 31 March 2022 for the WGA.

HM Treasury has not complied with the requirements of IFRS 10 in consolidating the SARA in 2021-22 or for the 2020-21 comparatives. In my opinion, the extent of non-compliance has resulted in a level of misstatement and uncertainty, and I am unable to confirm whether this would have a material impact on the WGA. I have therefore qualified my opinion in that respect.

Qualification arising from the consolidation of components whose accounts have not been audited

HM Treasury has included within the Whole of Government Accounts draft accounts data for 211 bodies largely within the Local Government sector. My inquiries of component auditors have highlighted a large number of issues and queries to resolve in testing these balances, and the presence of some unconfirmed uncorrected misstatements. I was therefore unable to gain sufficient assurance in respect of material values of Property, Plant and Equipment and Net public sector pension liabilities within the 2021-22 accounts. Given the materiality of these balances to the group and level of outstanding work within component audits in 2021-22 and for the 2020-21 comparatives, I was unable to obtain sufficient appropriate audit evidence that these Property, Plant and Equipment and Net public sector pension liabilities balances are free from material misstatement.

My report includes further details of the matters leading to my qualified opinion.

Basis for qualified opinion

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

Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2019. I am independent of the HM Treasury in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the HM Treasury’s use of the going concern basis of accounting in the preparation of the WGA financial statements is appropriate.

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

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

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

Other Information

The other information comprises information included in the Performance Report, the Statement of Accounting Officer’s Responsibilities, the Governance Statement and Annex A, but does not include the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information.

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

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

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

I report that I have concluded that there are actual and possible uncorrected material misstatements in the other information, including the comparative information, relating to the matters described in the Basis for qualified opinion on financial statements section above. I have nothing further to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit, the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the WGA and its environment obtained in the course of the audit, I have identified material misstatements in the Performance Report, including within the 2020-21 comparatives, relating to the matters outlined in the Basis for qualified opinion on financial statements.

I report that on the following matters, that in my opinion, based on the findings supporting my qualified opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; and

- I have not received all of the information and explanations I require for my audit.

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

- the financial statements are not in agreement with the accounting records and returns; and
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

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

- 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 the 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;
- preparing financial statements which give a true and fair view, in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000;
- preparing the annual report, in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- assessing WGA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Whole of Government will not continue to be provided in the future.

Auditor’s responsibilities for the audit of the financial statements

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

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

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:

- inquired of management, and those charged with governance, including obtaining and reviewing supporting documentation relating to HM Treasury’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 HM Treasury’s controls relating to the Government Resources and Accounts Act 2000;
- inquired of management, and those charged with governance whether:

    - they were aware of any instances of non-compliance with laws and regulations;
    - they had knowledge of any actual, suspected, or alleged fraud,
- discussed with the engagement team including significant component audit teams 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 WGA for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals and complex transactions. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the framework of authorities, as well as other legal and regulatory frameworks relevant to the WGA. 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 HM Treasury in the context of the Whole of Government Accounts. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000.

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 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
- 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.

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

Gareth Davies
Comptroller and Auditor General

25 March 2024

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

Introduction

1 **The WGA is uniquely positioned to provide an overview of public spending and offers an important tool for managing public finances and ensuring transparency and accountability, but** the quality and completeness of WGA is being eroded due to more missing and unaudited data. The WGA, for the year ended 31 March 2022, consolidates the accounts of public bodies from across the United Kingdom including local and central government and public corporations. However more components failed to submit data for the account than in any previous year, and more returns than ever before are based on unaudited information. While the WGA still contains useful information, the falling data quality reduces the reliability of trend data and the insight the accounts can provide. There is a real risk of my qualification worsening in future periods without additional corrective action.

2 **In 2021-22, the UK public sector spent £1,044.4 billion on public services and collected revenue of £881.6 billion.** Of this expenditure £259.7 billion (24.9%) went towards social security benefits, representing an increase of £1.3 billion, or 0.5% compared with the prior year. As in previous years, the largest element of this at £106.8 billion, or 41%, was payments of the state pension. Most of government expenditure is financed through taxation, with £774.7 billion of tax receipts over the twelve-month period. This was £124 billion more than in 2020-21, mainly due to the impact of COVID 19 on 2020-21 receipts.

3 **HM Treasury has delivered the 2021-22 WGA to a challenging timetable, but publication is still nearly two years after the balance sheet date.** In recent years, the timeliness of WGA has been impacted by COVID-19, problems with the OSCAR II IT system, and issues in the local government audit market. Having published the 2021-20 WGA some 27 months after the balance sheet date, HM Treasury put in place an ambitious multi-year recovery plan to bring publication of WGA back onto a pre-COVID-19 timetable. This plan began with the publication of the 2020-21 WGA in July 2023. By publishing the 2021-22 in March 2024, HM Treasury has achieved the second step of its plan but there remain challenges going forwards and, as set out below, ongoing delays in the English local audit market may jeopardise future progress.

Key findings

4 I have qualified my opinion on the WGA accounts for the thirteenth consecutive year, with six separate reasons for qualification for the year ended 31 March 2022. This is the same number of qualifications as on my opinion on the 2020-21 accounts. However, as set out below, the issues underpinning the qualifications relating to missing and unaudited data have worsened. I have also continued to qualify the WGA for four other long-standing reasons: a disagreement on the accounting boundary; qualifications in underlying accounts; the use of inconsistent accounting policies; and the impact of a different year end for academy schools. These issues have remained relatively stable in the current year.

Missing and unaudited data submissions

5 There was an increase in the number of bodies not submitting data to HM Treasury for inclusion in the WGA compared to the previous year. I qualified my opinion for the first time in 2020-21 due to the amount of data missing from the consolidation as 155 entities did not submit data for the WGA. In 2021-22 this increased to 178 entities. Despite HM Treasury writing to individual section 151 officers, who are responsible for local financial and management controls, 157 of the total 178 entities missing are English Local Authorities, representing 36% of the sector.

6 HM Treasury estimates that the impact of this missing data on the accounts is that net liabilities are understated by £52.1bn and net expenditure is understated by £28.8bn. HM Treasury has improved its analysis and disclosure of the impact of the missing data, with detailed analysis provided on pages 16-25 of the Performance Report and in each of the notes to the financial statements. However, the financial impact of the omissions is an estimate based on each component's last data submission: if components do not submit data for a number of years this estimate will become less precise and will most likely be an understatement of the impact. For the WGA to be useful and provide insight it must present a consistent overview of public sector spending. The amount of data missing from the accounts erodes the comparability of the accounts and the trends and conclusions that the user is able to draw from the information.

7 English local government statutory audits are increasingly delayed, which has led to higher levels of unaudited data in the WGA and an extension of my previous qualification relating to the use of unaudited data. Where components are not required by HM Treasury to have their data submissions independently audited, HM Treasury requests that submissions are based on audited statutory accounts. I have qualified my opinion for the third year in 2021-22 in relation to the use of data submissions that are not based on audited accounts. In 2021-22, 211 bodies (2020-21: 120 bodies), largely within the

English local government sector, were consolidated using data from draft accounts following delays in the audit of their underlying statutory accounts. In response to the recommendations in my 2020-21 Report on Accounts, HM Treasury obtained information and undertook analysis to understand the risks within these data submissions. As in the previous year, I then further assessed the risk of misstatement within these submissions through additional data analysis, review of subsequently published audited accounts, and enquiries of component auditors. Based on these procedures there remains an unacceptable level of risk over £34.3 billion of Property, Plant and Equipment and £19.2 billion of the net public sector pension liability. This is a deterioration of the position in the previous year where my qualification was limited to Property, Plant and Equipment only. There is a risk of this qualification worsening in future years, should delivery of 2022-23 Local Government audits continue to deteriorate.

8 The Department for Levelling Up, Housing and Communities (DLUHC) is considering setting statutory backstop dates for local authorities to publish their historic audited financial accounts. As HM Treasury notes in the Performance Report, and DLUHC announced in its cross-system statement published in July 2023, this is likely to result in a number of qualifications and disclaimer opinions being issued where audits have not been completed by the backstop date. This may have significant ramifications for the quality of the data submissions in WGA, and the assurance that can be placed on such qualified or disclaimed accounts.

Other Qualifications to the WGA

9 Following sales of shares in 2021-22, the government is no longer the majority owner of NatWest, but under accounting standards it should still be consolidated into the WGA. The most significant element of my qualification relating to accounting boundaries is HM Treasury's decision not to consolidate NatWest Group plc, which had gross assets of £782 billion and gross liabilities of £740.2 billion at 31 December 2021. In the March 2024 Spring Budget the government reiterated its intention to dispose of all shares in NatWest by 2025-26. Following a £1.2 billion sale on 28 March 2022, the Government was no longer the majority owner of NatWest at the 2021-22 year end, holding 48.1% of the ordinary share capital. However, due to the size of the government's holding of voting rights relative to the size and dispersion of holdings of the other shareholders, in my opinion the government currently still maintains control of NatWest under accounting standards, and therefore it should be consolidated into the WGA. This position is expected to change in the coming years as the government further reduces its shareholding.

10 My qualification arising from the definition and application of the accounting boundary is also driven by the non-inclusion of Further Education Institutions. In 2021-22, £13.6 billion of gross assets and £2.1 billion of gross liabilities relating to English Further Education Institutions were omitted from the WGA. However, following a decision by the ONS to reclassify Further Education Institutions to the public sector, HM Treasury is working with the Department for Education to identify a method and timetable to start consolidating these bodies in the WGA. This has the potential to remove this significant part of my qualification in the medium term.

11 **I have qualified my opinion due to qualifications of the audit opinion on the 2021-22 accounts of the Department for Health and Social Care, which are material to WGA.** In 2020-21 I included qualifications from two departmental accounts within the WGA qualification. Work done by the Environment Agency to revalue its Property, Plant and Equipment in its 2022-23 accounts has provided sufficient, reliable information to estimate the impact of the error in the WGA 2021-22 and for HM Treasury to adjust for this error. I have therefore removed this element of my qualification in 2021-22. The WGA continues to be qualified as a result of two qualifications of the underlying 2021-22 accounts of the Department for Health and Social Care (DHSC). One qualification related to a lack of records to support £1.36 billion of consumables inventory and the associated impairments and consumption during the year. The second related to the disclaimed opinion on the UK Health Security Agency (UKHSA) 2021-22 accounts, a significant component of DHSC, where I was unable to obtain sufficient, appropriate audit evidence to support the UKHSA total net expenditure of £9 billion and UKHSA total assets and liabilities of £0.4 billion and £0.9 billion

12 **I have qualified my opinion due to inconsistent accounting policies, mainly relating to the valuation of infrastructure assets.** The main cause of my qualification in its current form is inconsistent approaches to valuing infrastructure assets in central and local government. In 2021-22 I estimate the difference in valuation to be at least £94.7 billion. My qualification also includes the valuation of non-privatised water infrastructure in Scotland and Northern Ireland. For the valuation of the water infrastructure in Scotland, the component financial statements value the water infrastructure on a historic cost basis whereas the WGA values infrastructure assets on a depreciated replacement cost basis HM Treasury uses regulatory information to adjust the valuation to depreciated replacement cost in the WGA but this information is produced with the express caveat that it is not suitable for audit.

13 **Looking forward, differences in the timetable for implementation of the new accounting standard for leases, IFRS 16, between central and local government may lead to greater inconsistency in accounting policies in 2022-23.** Central government adopted the new standard in 2022-23, but local government will not adopt it until 2024-25, with early adoption permitted. Unless HM Treasury is able to make an adjustment next year to address the

difference in the accounting policies between the two sectors, there is a risk that this will lead to a material misstatement in the accounts.

14 Since my report on the 2020-21 WGA, HM Treasury and the Department for Education have made no further significant progress towards resolving my audit qualification resulting from the consolidation of the Academies sector, and this issue is unlikely to be addressed for several years. I noted in my previous report that HM Treasury and the Department for Education had only recently recommenced discussions on options to resolve the impact on the WGA of the Academies sector producing accounts with a different year end. There has been no significant progress on this matter since my previous report.

The WGA Timetable

15 HM Treasury has delivered the 2021-22 WGA four months earlier than the 2020-21 accounts and is making good progress to enable future WGAs to be published more quickly. The timeliness of the WGA has deteriorated significantly since the 2018-19 WGA was published in July 2020. The 2019-20 and 2020-21 accounts were published 26 and 27 months after their respective year-ends due to a combination of the impact of COVID-19, problems implementing the OSCAR IT system, and significant delays in completion of returns by component entities. In December 2022 HM Treasury revised its recovery plan to get back to a pre-COVID-19 timetable for the 2024-25 WGA. Additional personnel, the development of a more detailed project plan, and a strong delivery tone from management have enabled HM Treasury to deliver in line with its recovery plan.

16 However, HM Treasury remains dependent on delivery by components to achieve the remainder of its recovery plan and return to pre-pandemic timelines. HM Treasury's engagement with Central Government bodies has improved the timeliness of their delivery in 2021-22. However, despite extending the window for submissions to enable components to submit later, as noted above, there are material amounts of data missing from the account. To successfully deliver in line with the recovery plan, HM Treasury will need timely returns from all components, including English Local Authorities.

Recommendations

17 It is important that HM Treasury works with stakeholders and other responsible parts of government to address the pressing issues regarding the level of missing and unaudited data in the WGA. Together they should:

a) Engage with components and audit firms to assess the potential level of qualified or disclaimed opinions should a statutory back-stop date for local authority audits be implemented.

b) Once assessed, HM Treasury should identify the impact this may have on the quality of the data in the WGA and undertake work to gain assurance over the data in the accounts where possible.

HM Treasury should also consider future developments and take steps to minimise the risk that there are new audit qualifications in future. In particular HM Treasury should;

c) Consider how the misalignment of IFRS 16 between central and local government can be adjusted for in the 2022-23 WGA

d) Continue to work with the Department for Education to agree a mechanism to enable the accurate consolidation of Further Education Institutions in the future. This will need to ensure sufficient information is provided to allow for consolidation as at a 31 March year end. HM Treasury should also continue to work with the Department for Education to resolve the issue arising from the different year-end used by the Academies sector.

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Comptroller and Auditor General

25 March 2024

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Annex A
Comparison to the National Accounts

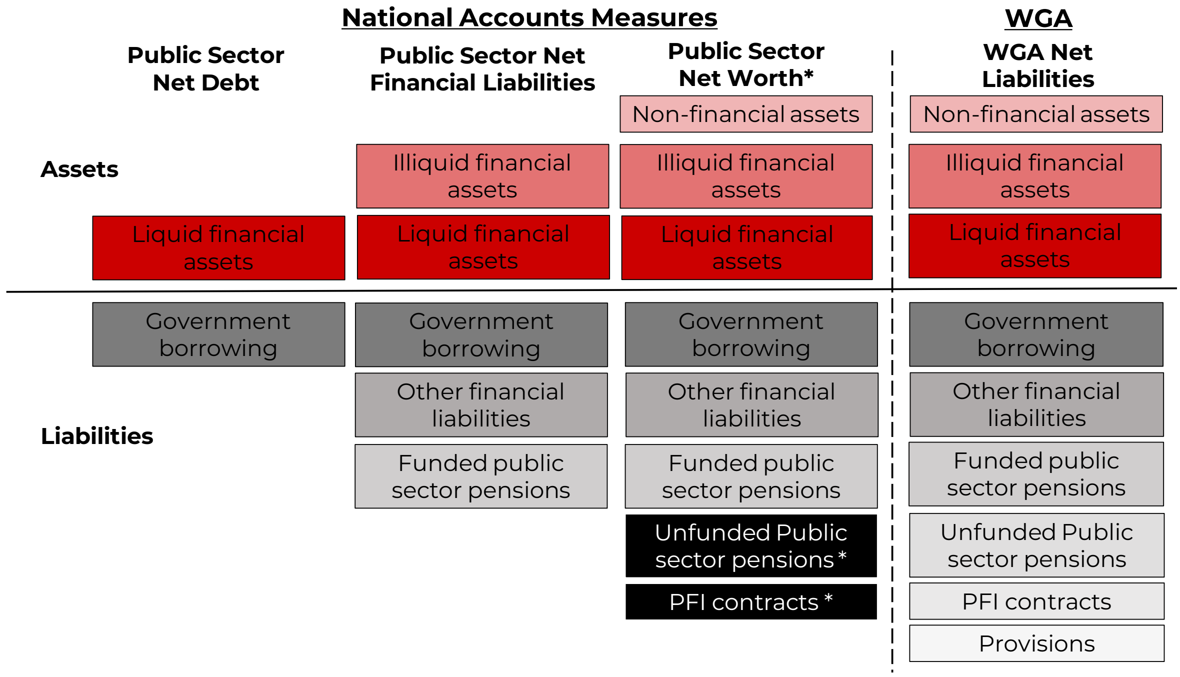
WGA and the National Accounts

5.1 While WGA offers a comprehensive overview, it is not without its limitations. The box on Page 15 elaborates on elements excluded from WGA. A significant issue is that financial statements, including WGA, are not released promptly enough for effective day-to-day management of public finances. To address this issue and ensure timely control, the government relies on National Accounts—a set of statistical measures. Although National Accounts may lack the full spectrum of assets and liabilities covered by WGA, they provide more timely insights.

5.2 When assessing the fiscal landscape, the National Accounts offer various statistical measures that provide a supplementary perspective on the government's financial standing. Public Sector Net Debt (PSND) is calculated by subtracting liquid financial assets (e.g., bank deposits and foreign exchange reserves) from government borrowings. PSND, excluding public sector banks, is the government's preferred metric for fiscal health, aligning with the internationally agreed National Accounts framework.

5.3 Public Sector Net Financial Liabilities go beyond PSND, encompassing all financial assets like loans, derivatives, and equity investments. The most comprehensive gauge derived from the National Accounts is Public Sector Net Worth, which compares the government's debt with all its assets. This includes physical assets used for service delivery, such as infrastructure, offices, hospitals, and schools.

Chart 5.A: Comparison of National Accounts and WGA measures

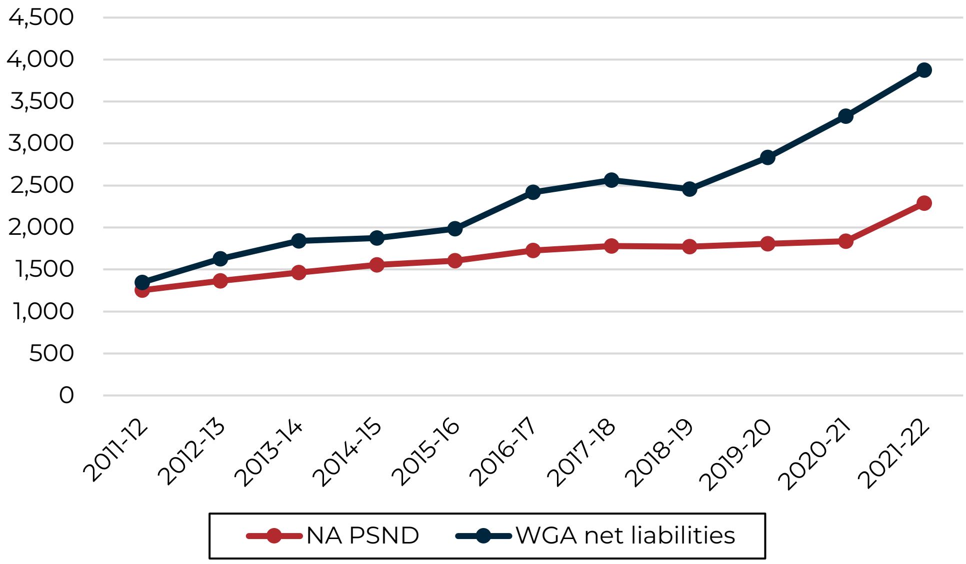


* Unfunded public sector pensions and PFI contracts will be included in the Government Financial Statistics Manual measure of PSNW, but not in the European Statistics Agency 2010 based measure

Source: HM Treasury

Note - WGA Net Liabilities surpass the scope of Public Sector Net Debt by incorporating non-financial assets, public sector pension liabilities, provisions, and PFI contracts. Additional insights into the distinctions between WGA and National Accounts will be provided later in this annex.

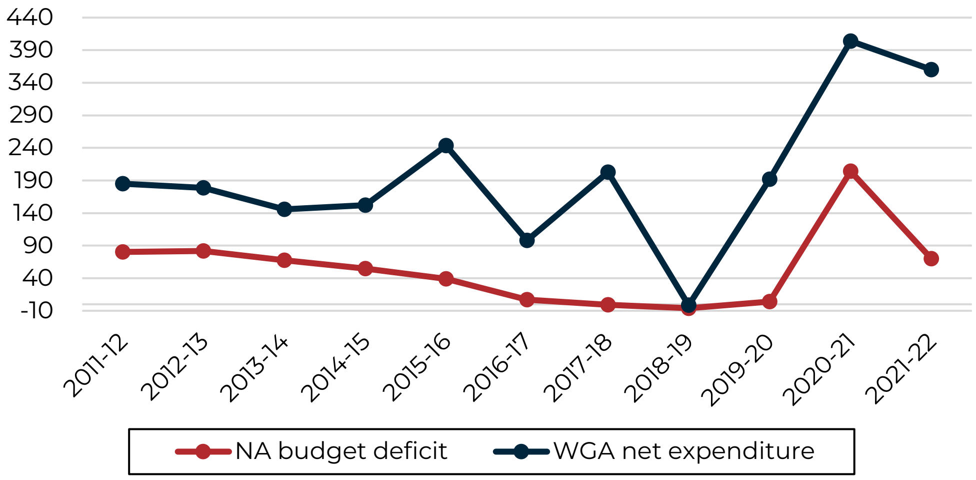
Chart 5.B: National Accounts (NA) PSND and WGA net liabilities (£ billion per financial year)



Source: HM Treasury and ONS data

5.4 Over the 13-year period since the inception of WGA, the overall trajectory of National Accounts PSND and WGA net liabilities has generally followed a similar pattern, especially until the fiscal year 2021-22. However, there was a deviation noted in the years 2016-17 and 2017-18. This discrepancy arose due to an increase in pension liabilities during that period, impacting WGA net liabilities but not National Accounts PSND. In the fiscal year 2018-19, the National Accounts documented the lowest annual deficit since 2001. Furthermore, a shift in the discount rate approach reversed the significant increase in provisions recorded in the preceding year. This adjustment led to a substantial swing, transforming a sizable accounting loss into a modest surplus in WGA net expenditure.

Chart 5.C: National Accounts (NA) Public Sector current budget deficit and WGA net expenditure (£ billion per financial year)



Source: HM Treasury and ONS data

5.5 The National Accounts and WGA present distinct perspectives on the balance sheet, with notable disparities in net expenditure. While the National Account current budget deficit has steadily decreased over the past 12 years, the WGA net expenditure series for the same period exhibits greater volatility. This volatility is primarily attributed to expenditures for financing the government's long-term liabilities, a factor included in the WGA but not in the National Accounts.
The financing costs associated with long-term liabilities are notably influenced by changes in discount rates used to discount future cash flows. This influence was particularly pronounced in the fiscal years 2015-16 and 2017-18, marked by alterations in discount rates for specific provisions that impacted financing costs in WGA but did not affect the National Accounts deficit.

5.6 Certain government priorities entail long-term obligations that span decades, requiring sustained expenditure. While the ultimate costs of these enduring projects remain uncertain, accounting standards necessitate the presentation of a single figure in annual accounts. This figure is derived from the best estimate of costs, technology considerations, and other pertinent factors, adjusted to account for the evolving value of money over time. The valuation of future cash flows is determined through present value calculations in accordance with accounting standards. The discount rates for provisions, established by HM Treasury, undergo annual updates and wield a significant impact on liabilities.

5.7 In the past, HM Treasury issued real rates based on the real yield of UK index-linked gilts. However, starting from the fiscal year 2018-19, HM Treasury introduced nominal rates that do not incorporate inflation, diverging from real rates. When utilizing these nominal rates, cash flows are inflated using inflation rates provided by HM Treasury, unless a more fitting forecast has been identified for specific provisions.

Why does the government use National Accounts?

5.8 WGA is prepared in accordance with International Financial Reporting Standards (IFRS). While these standards are interpreted and adjusted to suit the public sector context, WGA is fundamentally prepared on a basis similar to that of the private sector. It undergoes independent auditing by the National Audit Office (NAO). WGA's advantages lie in offering a comprehensive view of the government's financial standing, revealing the future implications of decisions already made and financial commitments undertaken, such as pensions and PFI projects.

5.9 In the realm of public finances, internationally agreed standards are applied, following the rules of National Accounts (European System of National and Regional Accounts) for measuring economic activity. The Office for National Statistics, operating independently, conducts the reporting. The notable benefit of National Accounts is their availability within a much shorter timeframe compared to WGA.

5.10 While there are more similarities than differences between the two frameworks—both employing accruals accounting concepts, generating balance sheets, and producing analyses of income and expenditure—they can be harmoniously integrated. The UK takes an additional step by reconciling WGA with the National Accounts, enhancing transparency.

5.11 The government's preferred metric for Public Sector Net Debt excludes public sector banks and is calculated as external borrowings less liquid financial assets.

5.12 The remaining portion of this chapter delineates variances between accounting standards and National Accounts rules, followed by a detailed reconciliation from WGA to the National Accounts.

Comparison between accounting standards and National Accounts

5.13 WGA adheres to International Financial Reporting Standards (IFRS) for accounting standards, while the statistical rules guiding the National Accounts are outlined in the European System of Accounts (ESA). Despite their distinct purposes, these frameworks share fundamental similarities:

- Both are prepared on an accruals basis, recognizing economic events regardless of the timing of cash transactions.
- Each framework produces a statement of financial position, an analysis of income and expenditure, and details of other changes.
- Both exclude future tax revenue and anticipated assets and liabilities that will be incurred in the future, such as forthcoming benefit and state pension payments.

Comparing WGA expenditure to the Public Sector current budget deficit

5.14 The current budget deficit in the public sector serves as a crucial element within the fiscal framework. It represents the variance in the financial year between accrued current revenue and expenditure, as stipulated in the National Accounts.

5.15 One notable distinction between the current budget deficit in National Accounts and the total expenditure in WGA is that National Accounts do not incorporate the financing costs of long-term liabilities. Instead, these costs are recognized in National Accounts when the corresponding liabilities are scheduled for payment.

Comparison to Public Sector Net Debt

5.16 Public Sector Net Debt is characterized as the consolidated gross debt of the public sector, subtracting assets that could be easily liquidated, as specified in the National Accounts. Variances between the measures of net debt and net liabilities in the National Accounts and WGA predominantly arise from distinct approaches to handling public sector pension liability, property, plant, equipment, and provisions.

Differences between WGA and National Accounts

5.17 The distinctions between IFRS and ESA in terms of how they recognize, and value specific assets, liabilities, and expenditures are outlined as follows:

Area	WGA treatment	National Accounts treatment
Grants to fund capital expenditure	It is recognised as an in-year expense since it doesn't lead to the acquisition of an asset for the government.	It is consistently capitalized under the premise that it contributes to an asset within the broader economy.
Research and development expenditure	It can be capitalized if it is likely to generate an asset, but it is often recorded as an expense within the same fiscal year.	It is capitalized more often when viewed as an investment with a duration exceeding one year.
PFI	After evaluating control of the assets, the majority of PFI assets and liabilities are recognized on the balance sheet. PFI payments are allocated among debt repayment, interest payments, and service expenditures.	After evaluating risks and rewards, the majority of PFI assets and liabilities are not recorded on the balance sheet. Payments made under PFI contracts are accounted for as current expenses within the fiscal year for off-balance-sheet schemes and as capital expenses within the fiscal year for on-balance-sheet schemes.
Depreciation of assets	Is calculated for each asset individually based on its estimated useful economic life and residual value	Is calculated using standard statistical models, high level data and asset life assumptions.
Revaluation and impairment of assets	Assets undergo revaluation as detailed in Note 1 of the WGA. A yearly assessment is conducted to determine impairment, comparing the assets' carrying value against their current status.	Assets are initially acknowledged at cost minus depreciation and are not subject to revaluation. Only impairments resulting from obsolescence or accidental damage are acknowledged.
Profit or loss on sale of assets	Recognised as income or expenditure	Proceeds of sale are recognised but not the profit or loss
Gilts	WGA bodies hold gilts at fair value, these are eliminated on consolidation and all the remaining gilts are held at amortised cost.	Gilts are incorporated based on their redemption value.
Public sector pensions	Recognises expenditure when rights accrue to employees, even if payment is not yet due. Pension assets are recognized when employees and/or employers contribute to the pension fund.	Recognises expenditure as it is disbursed to retirees. The forthcoming liability for existing employees is not acknowledged. In national accounts, pension entitlements are quantified on a gross basis, with no netting against anticipated government revenue or expected household social contributions.

Provisions	Recognises expenditure when it becomes probable that a payment will be needed because of past events	Recognises provisions only when they are settled (i.e., there are actual payments). Amounts expected to be paid out in future because of past events are not recognised
Effects of discounting future liabilities	Future cash flows are discounted to estimate the value of the liability. Changes to the cash flows and discount rate are recognised in-year	Not included
Transactions within government	Transactions are eliminated entity-by-entity in a process that takes several months. The residual elimination error is quantified and subject to audit	Transactions are eliminated using a quicker and higher-level approach. The residual elimination error can't be quantified
Asset Purchase Facility	Shows gilt purchases at fair value	Records the gilt purchases at nominal value
UK Asset Resolution (UKAR)	Includes both the liabilities and the assets.	Includes UKAR's own debts to the private sector and excludes their non-liquid financial and other assets
Housing associations	Not included within the WGA boundary	Housing Associations were previously part of the National Accounts but are currently excluded.

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This document can be downloaded from www.gov.uk

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