HM TREASURY

HM Treasury Annual Report and Accounts 2010-11

HC 984

July 2011

Erratum

The following correction has been incorporated into this document:

Page 101, Paragraph 10:30 has been corrected to "£6.72bn (98 per cent)" instead of "£6.72bn (94 per cent)".

HM Treasury Annual Report and Accounts 2010-11

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Foreword

By the Chancellor of the Exchequer, the Rt Hon George Osborne MP

In May 2010 the Coalition Government was founded on an agreement to rebuild the British economy by tackling the unprecedented deficit and moving to a new model of growth built on saving, investment and enterprise instead of debt.

With borrowing accounting for one pound in every four of British State spending and the UK's triple-A credit rating under threat, the Government's immediate priority was to set out a robust and credible plan to tackle the deficit in order to pave the way for strong, sustainable and balanced growth that is more evenly shared across the country and between industries.

Over the course of this year, the Government has consistently demonstrated it will take the urgent action and make the unavoidable tough decisions to get the public finances back on track:

- in May 2010 we announced over £6 billion of in-year savings;
- the emergency Budget in June 2010 set out plans for a significant acceleration in the reduction of the structural deficit during this Parliament. It announced a new forward-looking fiscal mandate, and that performance against it would be assessed by a new, independent, Office for Budget Responsibility; and
- the Spending Review in October 2010 fixed departmental budgets for the next four years and set out how the deficit reduction plan will be achieved by cutting out waste and reforming public services.

The Treasury itself accepted a 33 per cent reduction in its Spending Review settlement and undertook a detailed strategic consideration of its own working practices to deliver better value through increased productivity and working more flexibly.

The Government's plan has been endorsed by the IMF, OECD, European Commission, ratings agencies and business organisations across the UK. It has already secured the UK's credit rating, kept interest rates lower than they would otherwise have been, and is providing the confidence that business and individuals need to invest in the UK's economy.

Tax reform has also been a key theme of the past year. Our corporate tax reforms are already on track to deliver the most competitive business tax regime in the whole of the G20. We have set up a new Office of Tax Simplification to reduce complexity in the tax system and reduce compliance costs for both individuals and businesses. And our changes to income tax and national insurance mean that over one million low pay workers will be lifted out of tax altogether.

At every point in its reforms, the Government has prioritised fairness. We have ensured that all parts of society contribute to tackling the deficit while protecting the most vulnerable and reducing income tax for those on low and middle-incomes. We have put the welfare system onto a sustainable footing while delivering greater opportunities for social mobility.

The Treasury is also leading on the growth agenda, by coordinating an ongoing cross-Government Growth Review. The first step was an ambitious *Plan for Growth* published alongside Budget 2011. The plan provides a new model of sustainable growth to restore Britain's competitiveness. It tackles barriers to enterprise, invests in apprenticeships, and supports commercial innovation. The Government's focus on growth will continue throughout this Parliament, ensuring we create the right conditions for businesses to start up, invest, grow and generate new jobs.

A stable financial services sector is essential for a healthy economy, and we must ensure that the near-collapse of the banking system in 2008 never happens again. The UK is at the forefront of international work, including by the G20 and EU to strengthen the global financial system. We are leading the way domestically with a radical programme to make the banking system safer and reform the failed regulatory framework the Government inherited. We have improved responsibility and transparency on pay, and introduced a new levy to ensure that the banks make a fair contribution to the public finances while increasing lending to businesses.

We continue to work closely with our international partners in response to global economic risks such as the sovereign debt problems in the euro area, including through active UK participation in the IMF and G20.

I have been impressed by the dedication shown by officials in the Treasury Group. Without them it would not be possible to deliver the Government's aims and objectives. On behalf of Treasury Ministers I would like to thank them for their continued hard work.

The Rt Hon George Osborne MP

Section 1:

Annual Departmental Report

1 Introduction

1.1 This chapter explains the structure of this report, introduces Treasury Ministers, the members and structure of the Treasury Group and gives an overview of the work programme.

About this Report

1.2 This report covers the period from 1 April 2010 until 31 March 2011, although an update in respect of more recent information is provided where possible. It describes the Treasury's performance and achievements against the Departmental Business Plan and the associated Structural Reform Plan (SRP). The document also provides a comprehensive account of the Treasury Group's use of resources.

Section 1: Annual Report

Chapter 1: Introduction

Chapter 2: Business Plan Update Includes a summary of performance against the SRP actions and milestones, relevant to each of the Treasury's priorities and provides data against the Impact and Input indicators identified within the Business Plan.

Chapter 3: Better Regulation Explains the Treasury's role in helping to promote the better regulation agenda which aims to eliminate the unnecessary burdens of regulation without reducing vital regulatory protections and controls.

Chapter 4: Corporate Governance Describes the governance systems in place across the Treasury Group and identifies those responsible. This section explains the Treasury's relationship with its Arms Length Bodies and other organisations.

Chapter 5: Corporate Information Provides information on the way the Department manages itself, including people, infrastructure and its relationship with Parliament. Information is also provided on headcount and security of data.

Chapter 6: Financial Data and Projections Describes, through comparative tables and additional information, an overview of the finances of the Treasury Group.

Section 2: Resource Accounts

Chapter 7: Statement of Accounting Officer Responsibilities sets out the responsibilities of the Permanent Secretary and Accounting Officer with regard to the annual accounts.

Chapter 8: Statement on Internal Control provides background on the Group's systems and processes for ensuring internal control, together with a judgement on their effectiveness in 2010-11.

Chapter 9: Remuneration Report provides required information and data on the levels of remuneration for ministers and senior managers.

Chapter 10: Certificate and Report of the Comptroller and Auditor General provides the independent audit opinion on these annual accounts.

Chapter 11: Annual Accounts provides the core financial tables and data, including the Statement of Parliamentary Supply, Statement of Comprehensive Net Expenditure, Consolidated Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Taxpayers Equity.

About Treasury Ministers

1.3 The Chancellor of the Exchequer, the Rt Hon George Osborne MP, has overall responsibility for the Treasury. He is supported by:

- the Chief Secretary to the Treasury, the Rt Hon Danny Alexander MP;
- the Financial Secretary to the Treasury, Mark Hoban MP;
- the Exchequer Secretary to the Treasury, David Gauke MP;
- the Economic Secretary to the Treasury, Justine Greening MP; and
- the Commercial Secretary to the Treasury, Lord Sassoon.

1.4 Ministerial responsibilities are illustrated at the end of this chapter.

About the Treasury Group

1.5 At the date of publication, the Treasury Group consists of four organisations: HM Treasury, including the Office for Budget Responsibility and the Office of Tax Simplification; the Asset Protection Agency; the UK Debt Management Office; and the Royal Mint Advisory Committee.

1.6 The Office of Government Commerce was subject to a machinery of government change in 2010 and transferred from the Treasury Group to the Cabinet Office as part of the newly created Efficiency and Reform Group.

1.7 Towards the end of 2010-11, the Treasury changed the structure of the Department from large Directorates to smaller Director led Groups. Diagrams illustrating the old and new Treasury internal structures can be found at the end of this chapter and the Organisation Chart for the Department can be found on the Treasury website.[1]

About the work programme

1.8 During 2010-11, the Treasury's Structural Reform Plan focused on three priorities:

- reduce the structural deficit in a fair and responsible way;
- secure an economy growing sustainably, which is more resilient, and balanced between public and private sectors and between regions; and
- reform the regulatory framework for the financial sector to avoid future financial crises.

1.9 Building on these aims, the Department sets out a clearly defined and resourced internal work programme, reflecting new priorities and changing pressures. The Treasury will continue to coordinate key fiscal events including the Budget[2] and Spending Reviews.[3]

1.10 The Treasury Group works to provide high quality advice and guidance to the Treasury Ministerial team on economic and financial policy. In partnership with other bodies, the Group

[1] www.hm-treasury.gov.uk/d/hmt_orgchart.pdf
[2] During the 2010-11 financial year there were two Budget Statements: June 2010 Budget (on 22 June 2010) and 2011Budget (on 23 March 2011)
[3] During 2010-11 financial year the Spending Review statement was published on 20th October 2010

also communicates and implements policy, prepares legislation, exercises its powers of financial control within Government, procures the supply of coinage and influences economic agents.

Overview of 2010-11

1.11 During the year the Treasury provided continued support to all its Ministers; briefing the new Ministerial team following the General Election and facilitating an effective transition to the new administration.

1.12 The work of the Treasury was, of course, influenced by external factors, not least global economic uncertainty, domestic challenges, political events and reductions to the Treasury's budget. The Statement of Internal Control outlines the Treasury's response to these challenges and the steps taken to mitigate the risks they could have posed.

1.13 Over the course of 2010-11, HM Treasury has:

- set up the Office for Budget Responsibility to make an independent assessment of the public finances;
- announced a £6bn emergency cuts package, followed by a June Budget which set out plans to put the public finances on a stable footing;
- completed the Spending Review, with over 100,000 ideas submitted from members of the public and public sector workers as part of the Spending Challenge;
- launched the Independent Commission on Banking; the Independent Public Service Pensions Commission; and the Review of Fair Pay in the Public Sector;
- worked with Number 10 and the Cabinet Office to revise the systems in place to monitor Government performance;
- launched various consultation exercises[4] including the consultation on the removal of tax reliefs and the work towards the simplification of tax;
- created the new Office of Tax Simplification;
- worked with colleagues across the G20 and EU to strengthen the global financial system;
- published the Plan for Growth, alongside Budget 2011, to provide a new model of sustainable growth to restore Britain's competitiveness;
- published the first National Infrastructure Plan; and
- accepted a 33 per cent reduction in our Spending Review settlement and undertook a detailed strategic review into how to increase productivity and work more flexibly.

1.14 HM Treasury's website[5] contains downloadable copies of all documents published by the department and these are available for download. Additionally Treasury publications relating to the previous administration are available from The National Archives[6].

[4] www.hm-treasury.gov.uk/consult_fullindex.htm
[5] www.hm-treasury.gov.uk
[6] www.nationalarchives.gov.uk

Ministerial responsibilities

Chancellor of the Exchequer – The Rt Hon George Osborne MP

The Chancellor has overall responsibility for the work of the Treasury.

He is supported by:

- the Chief Secretary to the Treasury;
- the Financial Secretary to the Treasury;
- the Exchequer Secretary to the Treasury;
- the Economic Secretary to the Treasury; and
- the Commercial Secretary to the Treasury.

Chief Secretary to the Treasury

The Rt Hon
Danny Alexander MP

- Responsibility for public expenditure including:
  - spending reviews and strategic planning;
  - in-year spending control;
  - public sector pay and pensions;
  - Annually Managed Expenditure (AME) and welfare reform;
  - efficiency and value for money in public service;
  - procurement; and
  - capital investment.
- Treasury interest in devolution.

Financial Secretary to the Treasury

Mark Hoban MP

- Financial services policy including banking and financial services reform and regulation, financial stability, city competitiveness, wholesale and retail markets in the UK, Europe and internationally and the Financial Services Authority (FSA).
- Banking support, including responsibility for the Asset Protection Scheme, Recapitalisation Fund and other schemes.
- Bank lending.
- Responsibility for UK Financial Investments (UKFI).
- Equitable Life.
- Personal savings and pensions policy.
- Support to the Chancellor on EU and wider international finance issues.

Exchequer Secretary to the Treasury

David Gauke MP

- Strategic oversight of the UK tax system including direct, indirect, business and personal taxation.
- Corporate and small business taxation, with input from the Commercial Secretary.
- Departmental Minister for HM Revenue and Customs and the Valuation Office Agency.
- Lead Minister on European and international tax issues.
- Overall responsibility for the Finance Bill.

Economic Secretary to the Treasury

Justine Greening MP

- Environmental issues including taxation of transport, international Climate Change issues and Energy issues.
- North Sea oil taxation.
- Tax credits and child poverty and assisting the Chief Secretary on welfare reform.
- Charities and the voluntary sector.
- Excise duties and gambling, including excise fraud and law enforcement.
- Regional Economic Policy.
- Stamp duty land tax.
- EU Budget.
- Ministerial responsibility for the Royal Mint and Departmental Minister for HM Treasury Group.
- Working with the Exchequer Secretary on the Finance Bill.

Commercial Secretary to the Treasury

Lord Sassoon

- Treasury spokesman in the House of Lords.
- Enterprise and productivity, including industrial strategy, better regulation, competition policy, infrastructure, and microeconomic reform.
- Corporate finance, including public corporations and public private partnerships.
- Assisting the Financial Secretary on financial services and banking policy, including UK Financial Investments (UKFI).
- Working with the Financial Secretary to promote the Government's financial services policies and the competitiveness of the UK.
- Asset freezing and financial crime.
- Foreign exchange reserves and debt management policy, National Savings and Investment and Debt Management Office.

Treasury Group structure (to 31 March 2011)

HM TREASURY

Sir Nicholas Macpherson
Permanent Secretary

Permanent Secretary and Ministerial Services

Sir Nicholas Macpherson Permanent Secretary

Create and maintain efficient and effective policies and systems to enable Ministers, the Treasury Board and the Permanent Secretary to give strategic direction to the department so that it delivers its objectives and targets now and in the future.

Budget, Tax And Welfare (BTW)

Edward Troup Managing Director

Sustain tax revenues and manage the risk to revenues, promoting a fair and efficient tax and benefit system with incentives to work, save and invest and expanding economic and employment opportunities for all.

Corporate Services Directorate (CSD)

Julian Kelly Group Director of Finance and Commercial

Emma Lindsell Director of Corporate Services

Stephen Parker Head of Treasury Legal Advisers

Provide corporate systems, services and facilities to enable HM Treasury to deliver effectively and efficiently, and as shared services within the Treasury Group.

International and Finance (IF)

Tom Scholar Second Permanent Secretary

Michael Ellam Managing Director

Jonathan Taylor Managing Director

Promote UK economic prosperity by: maintaining stability and financial stability internationally and in the UK; promoting global prosperity, including for the poorest, and driving economic reform in the EU; promoting a fair, and efficient financial sector.

Public Services and Growth (PSG)

Andrew Hudson Managing Director

Effective control and allocation of public spending; higher productivity in the public and private sectors; efficiency and excellence in public services and stronger economic growth.

Macroeconomic and Fiscal Policy (MFP)

Dave Ramsden Managing Director and Chief Economic Advisor

Maintain leading edge monetary and fiscal policy frameworks; provide expert macroeconomic and fiscal policy advice; forecasting economic prospects and the public sector finances; and promoting efficient and effective government debt cash and reserves management.

The UK Debt Management Office

United Kingdom
Debt Management Office

Robert Stheeman
Chief Executive

Policy and Markets

Jo Whelan Deputy Chief Executive and Joint Head of Policy and Markets

Joanne Perez Joint Head of Policy and Markets

Operations and Resources

Jim Juffs Chief Operating Officer

Asset Protection Agency

APA Asset **Protection** Agency
an Executive Agency of HM Treasury

Stephan Wilcke
Chief Executive

Bill Dickinson Chief Financial and Operating Officer

Jens L. Bech Chief Risk Officer

Ion Dagtoglou Chief Investment Officer

Lucy Wylde General Counsel

HM Treasury (from 1 April 2011)

HM TREASURY

Executive Management Board

Sir Nicholas Macpherson
Permanent Secretary

Tom Scholar
Second Permanent Secretary

Michael Ellam Director General
International and EU

Andrew Hudson Director
General Public Services

Jonathan Taylor Director General
Financial Services

Director Led Groups

Ministerial and Communications
Sir Nicholas Macpherson Permanent Secretary

Responsible for decision making, coordination and management of the department and communications with media and the public.

Economics
Dave Ramsden Director General

Responsible for UK economic analysis, surveillance, and professionalism.

Financial Stability
Mridul Hegde Director

Responsible for ongoing stability issues and resolution of financial interventions.

Financial Regulations and Market
Nikhil Rathi Director

Responsible for the financial services regulatory framework and for financial markets policy issues

Financial Services
Alison Cottrell Director

Responsible for policy with respect to financial services.

Strategy, Planning and Budget
Mark Bowman Director

Responsible for defining forward strategy, work programme, the Budget and short-term priority policy projects.

Business and International Tax
Mike Williams Director

Responsible for business tax, indirect taxes and international tax.

Personal Tax, Welfare and Pensions
Indra Morris Director

Responsible for personal tax, welfare, labour market, and HMRC/DWP expenditure, pensions and savings.

International and EU
Peter Curwen and Nick Joicey Directors

Responsible for protecting the UK’s economic and fiscal interests overseas.

Dave Ramsden Director General
Chief Economic Advisor

Edward Troup Director General
Tax and Welfare

Alison Cottrell Interim Director
Corporate Services

Julian Kelly Group Director
Finance and Commercial

Mark Bowman Director
Strategy, Planning and Budget

Corporate Centre
Julian Kelly and Alison Cottrell Directors

Responsible for HR, estates, IT, management of domestic budget, accounts and commercial activities.

Fiscal
Sam Beckett Director

Responsible for monitoring fiscal positions, funds, and debt, and determining fiscal strategy.

Public Spending
James Richardson Director

Responsible for oversight of major public service expenditure.

Enterprise and Growth
Peter Schofield Director

Responsible for expenditure on growth-related services and business.

Public Services
Tamara Finkelstein Director

Responsible for oversight of major public service expenditure.

Treasury Legal Advisors
Stephen Parker Director

Responsible for provision of advisory and other legal services across HM Treasury and certain other agencies and departments.

Performance and Reform Unit
Felicity Harvey Director

Responsible for public service reform and monitoring of performance, including key risks.

Financial Management and Reporting
Ken Beeton Director

Responsible for embedding good governance and financial management across government.

Infrastructure UK
Andrew Rose Acting Chief Executive

Responsible for strategy for investment in UK infrastructure.

2 Business Plan Update

2.1 In November 2010, alongside other Central Government departments, HM Treasury published its Departmental Business Plan.[1] When combined these plans set out in detail the work of Government for the next four years. Every department's plan includes the following sections:

- Vision;
- Coalition Priorities;
- Structural Reform Plan (SRP);
- Departmental Expenditure; and
- Transparency (including Input and Impact Indicators)

2.2 The Reform Plan lists the specific activities that departments are working on to deliver coalition priorities and provides a deadline for each. Progress reports are published on the Number 10 website each month and provide an explanation for any missed deadline.

2.3 Business Plans were revised in May 2011[2] and HM Treasury revised its SRP to include further details about the work plan and, along with other departments, included some new indicators and information about common areas of spend.

Structural Reform Plan priorities

2.4 Under its Structural Business Plans the Treasury has three priorities:

Table 2.A: Structural Reform Priorities	
Priority 1	Reduce the structural deficit in a fair and responsible way
Priority 2	Secure an economy growing sustainably which is more resilient, and balanced between public and private sectors and between regions
Priority 3	Reduce the structural deficit in a fair and responsible way

Progress made during 2010-11

2.5 During 2010-11 HM Treasury planned to complete a total of 58 actions and milestones (34 actions & 24 milestones). Of these six deadlines were missed and, as of 31 March 2011, one remained outstanding.

The following tables break down these actions and milestones by coalition priority. Where deadlines have been missed an explanation for the delay has been included.

[1] www.hm-treasury.gov.uk/about_business_plan.htm
[2] http://transparency.number10.gov.uk

Priority 1: Reduce the structural deficit in a fair and responsible way

No of Actions & Milestones	Met on Time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
18	17	0	0	1

Deadlines Missed

Action 1.4(ii) - due for completion in March 2011.
Confirm detailed implementation plan for the increase in employee contributions announced at the Spending Review, in response to the recommendation in the interim report of the Independent Public Service Pension Commission.

Reason for Delay
The Government agreed with the General Secretary of the Trades Union Congress to extend the date at which the Government will confirm the detailed implementation plans, on which there will then be consultation.

Source: HM Treasury

Priority 2: Secure an economy growing sustainably, which is more resilient, and balanced between public and private sectors, and between regions

No of Actions & Milestones	Met on Time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
28	24	3	0	1

Deadlines missed

Milestone D - due for completion in November 2010.
Interim Office of Tax Simplification report published on tax reliefs.

Reason for the delay
Publication of the report was delayed until 13th December 2010 to avoid clashes with other tax announcements and publication of the draft clauses for Finance Bill 2011.

Action 2.11(iii) - due for completion in November 2010.
Negotiate between the European Council and the European Parliament, leading to agreement on the Budget for 2011.

Reason for delay
The EU budget for 2011 was not agreed as expected at the conciliation committee between the European Parliament and the Council, which met on 11 and 15 November 2010.

While both sides said they could accept the proposed budget increase of 2.91 per cent above 2010 levels, the European Parliament also demanded an outcome on a number of broader, strategic budgetary issues. The Government was not prepared to accept these conditions for agreement to the 2011 budget. At a time of widespread austerity measures, the Government believed that the over-riding priority for these meetings was to agree on next year's EU budget, and that it was inappropriate to condition agreement to progress on these longer-term political issues. A number of Member States expressed similar concerns.

The EU's budget for 2011 was adopted on 15 December 2010, and has been limited to a 2.9 per cent increase from 2010 levels.

Milestone Q - due for completion in November 2010.
Interim report published by independent Will Hutton Review into fair pay in the public sector.

Reason for delay
The report was slightly delayed and published on 1 December 2010.

Action 2.12(ii) - due for completion in December 2010.
Produce a Government paper examining rebalancing the Northern Ireland economy including examining potential mechanisms for changing the corporation tax rate in Northern Ireland.

Reason for delay
The Government continued to discuss this matter with the Northern Ireland Executive.

On 24 March 2011 the Government published a consultation document on rebalancing the Northern Ireland economy. This paper was produced in consultation with the Northern Ireland Executive.

Source: HM Treasury

Priority 3: Reform the regulatory framework for the financial sector to avoid future financial crises

No of Actions & Milestones	Met on Time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
12	11	1	0	0

Deadlines missed

Action 3.4(ii) - due for completion in December 2010.
Agree and implement EU Capital Requirement Directive 3.

Reason for delay
The EU Capital Requirement Directive 3 was implemented on 1 January 2011.

Source: HM Treasury

Performance Indicators

2.6 HM Treasury's November 2010 Business Plan quoted a number of Impact and Input Indicators; these were enhanced within the revised plan published in May 2011.[3]

Impact Indicators

2.7 The Treasury has nine indicators chosen to reflect the work of the Treasury; these are designed to help the public judge whether the policies and reforms are having the effect they want. These will be revisited and refreshed, where appropriate, for future Business Plans.

Table 2.B: Table Impact Indicators

Indicator	2009-10	2010-11	Latest available 2011-12	Notes
Cyclically adjusted current deficit[4]	-5.3	-4.6	Not available	Data is given as a percentage of GDP. From OBR March forecast. 2010-11 data do not reflect latest outturn. Latest non-cyclically adjusted current budget outturn for 2010-11 is £1.3bn better than OBR forecast.
Public Sector debt as a percentage of GDP[4]	52.8	60.1	60.6 (May)	
Departmental DEL Outturn	Original Total DEL limit: £379.4bn Total DEL outturn: £376.3bn[5]	Original Total DEL limit: £378.3bn OBR forecast Total DEL outturn: £376.1bn[6]	Not available	
GDP per capita [adjusted for inflation]	-4.2 per cent	1.5 per cent	Not available	
Regional Employment Rate		*See table 2.B*		
Main Corporate tax rate (OECD data)	28 per cent	26 per cent	Not available	For UK comparison to G7 and G20 countries see table 2.C.

[3] http://www.hm-treasury.gov.uk/about_business_plan.htm

[4] Excludes the temporary effect of financial sector interventions

[5] http://www.hm-treasury.gov.uk/pespub_natstats_feb2011.htm

[6] http://www.hm-treasury.gov.uk/2011budget.htm

Indicator	2009-10	2010-11	Latest available 2011-12	Notes
No of top-50 European Companies (by market capitalisation) listed in the UK[7]	23 listed (or joint-listed) in the UK. 1st in Europe for number of companies UK listed in top 50	22 listed (or joint listed) in the UK 1st in Europe for number of companies UK listed in top 50	22 listed (or joint listed) in the UK 1s in Europe for number of companies UK listed in top 50	Latest quarterly data published as at 31 December 2010.[8] Details of listings taken from individual company websites.
Total gross new lending by Barclays, HSBC, Lloyds Banking Group, RBS and Santander, (quarterly Bank of England data)	N/A	Total lending £47.3bn Lent to SMEs £16.8bn	Not available	Data is for Q1 2011. Project Merlin is an annual target, so there is no formal quarterly measure against which to compare the banks' performance.
Changes to Government's financial exposure to the financial sector through its exceptional support measures[9]		*See Table 2E Banking Impact Indicators*		

[7] http://media.ft.com/cms/66ce3362-68b9-11df-96f1-00144feab49a.pdf

[8] http://media.ft.com/cms/253867ca-1a60-11e0-b003-00144feab49a.pdf

[9] Includes: Government shareholdings in Royal Bank of Scotland; Government shareholdings in Lloyds Banking Group; Government shareholdings in Northern Rock; Government shareholdings in Bradford and Bingley; The Credit Guarantee Scheme; The Asset Protection Scheme; Loans in relation to the resolution of Dunfermline Building Society; Loans in relation to the resolution of the Icelandic banks; Government indemnities of Bank of England measures (Special Liquidity Scheme and Asset Purchase Facility)

Regional Employment Rate

2.8 Annual data for Regional Employment is released in February each year; more frequent data is published monthly.

Table 2.C: Regional Employment Rate

	Employment Rates (per cent)		
	2009	**2010**	**2011 Q1** April 2011
North East	66.4	66.9	65.9
North West	68.9	69.1	68.6
Yorkshire & the Humberside	69.1	68.7	68.0
East Midlands	72.8	70.7	71.8
West Midlands	68.5	68.8	68.1
East	74.8	73.7	75.2
London	68.4	68.5	68.7
South East	75.4	74.9	75.0
South West	74.2	73.8	73.5
Wales	67.6	67.1	68.6
Scotland	72.1	70.5	70.9
Northern Ireland	64.6	66.1	67.1
Total for the UK	70.9	70.5	70.6

Source: Office for National Statistics

2.9 Further information is available on the Office for National Statistics website.[10]

Main Corporate Tax Rate G7 and G20 countries (OECD data)

Table 2.D: Table G7 countries

	Corporate Tax Rates (per cent)	
	2010	**2011**
Canada	29.4	27.6
France	34.4	34.4
Germany	30.2	30.2
Italy[11]	31.4	31.4
Japan	39.5	39.5
United Kingdom	**28.0**	**26.0**
United States	39.2	39.2

Source: OECD tax database/IBFD[12]

[10] http://www.statistics.gov.uk/StatBase/TSDTimezone.asp?vlnk=lms&Pos=&ColRank=1&Rank=-1
Release: Labour Market Statistics - Integrated FR
Table: Regional labour market summary - LFS data

[11] Includes regional business tax (IRAP)

[12] http://www.oecd.org/document/60/0,3343,en_2649_34533_1942460_1_1_1_37427,00.html

Table 2.E: Table G20 Countries (OECD data)

	Corporate Tax Rates (per cent)	
	2010	**2011**
Argentina	35.0	35.0
Australia	30.0	30.0
Brazil	34.0	34.0
Canada	29.4	27.6
China	25.0	25.0
France	34.4	34.4
Germany	30.2	30.2
India[13]	42.2	42.2
Indonesia	25.0	25.0
Italy[11]	31.4	31.4
Japan	39.5	39.5
Korea	24.2	24.2
Mexico	30.0	30.0
Russia	20.0	20.0
Saudi Arabia[14]	20.0	20.0
South Africa	28.0	28.0
Turkey	20.0	20.0
United Kingdom	**28.0**	**26.0**
USA	39.2	39.2
Source: OECD tax database/IBFD		

[13] Applicable to income of non-resident companies. Includes surcharge and education cess. 33.99 per cent rate for domestic companies

[14] Applicable to income of non-resident companies

Changes to government's financial exposure to the financial sector through its exceptional support measures

2.10 The table below summarises the UK Government's financial exposure as at 31 March 2010 and 31 March 2011. The financial exposures span a range of interventions, details of which can be found in notes 28 to 39 of the Resource Accounts. All of the figures are drawn from HM Treasury's audited 2010-11 Resource Accounts.

2.11 The exposures include equity investments, loans and advances, and contingent liabilities, all at their carrying value in the Resource Accounts. Further details on the valuation of all financial instruments are included within the accounting policies in note 1.18. The exposures exclude the derivative financial assets and liabilities relating to the Asset Protection Scheme and Asset Purchase Fund and instead the overall scheme exposure is included.

Table 2.F: Banking Impact Indicators

Indicator	2009-10 £000s	2010-11 £000s	Description	Note reference for Resource Accounts
RBS	50,359,024	47,262,455	Comprises equity investments and a contingent capital commitment.	15, 27
Lloyds Banking Group	17,329,915	16,037,814	Comprises equity investments.	15
Northern Rock Asset Management	40,370,004	37,792,514	Comprises contingent capital, deposit guarantees, and loan balance.	17, 27
Northern Rock plc	8,600,000	1,988,000	Comprises equity investment (at historic cost) and deposit guarantees.	15, 27
Dunfermline	1,399,846	1,011,014	Comprises loan balance.	17
Icelandic banks[15]	6,539,799	5,660,352	Comprises statutory debt, FSCS and DIGF loan balances.	17
Bradford and Bingley	33,235,927	31,740,984	Comprises working capital facility, statutory debt, deposit guarantees and pension scheme guarantees.	17, 27
Credit Guarantee Scheme	125,000,000	115,000,000	Comprises maximum contingent liability based on scheme size.	39.1

[15] Icelandic banks comprise Heritable, Icesave, KSF and the loan provided to the Icelandic Depositors' and Investors' Guarantee Fund.

Indicator	2009-10 £000s	2010-11 £000s	Description	Note reference for Resource Accounts
Asset Protection Scheme	154,000,000	110,000,000	Comprises maximum contingent liability based on scheme size and first loss piece.	39.6
Government indemnities of Bank of England Special Liquidity Scheme	165,000,000	91,000,000	Comprises maximum contingent liability based on scheme size.	39.4
Government indemnities of Bank of England Asset Purchase Fund	200,000,000	200,000,000	Comprises maximum contingent liability based on scheme size.	39.2

Source: HM Treasury

Input indicators

2.12 HM Treasury has published within the *Business Plan 2011-2015* five input indicators which identify the costs of activities specific to the Treasury's work.

Table 2.G: Table Input Indicators

Indicator	**2009-10** £000s	**2010-11** £000s
Cost of public expenditure planning and control	13,711	10,317
Cost of supporting tax policy	12,259	9,921
Cost of international engagement and financial services policy	25,664	18,730
Cost of supporting and developing macroeconomic and fiscal policy	34,352	35,479
Cost of supporting debt management	15,712	14,734

Source: HM Treasury

2.13 Further detail about these numbers is available within this document at Section 2- Resource Accounts.

Other data

2.14 The Treasury publishes a range of additional data sets that can be found at the data.gov.uk website.[16]

[16] http://www.data.gov.uk/data/publishers/HerMajesty'sTreasury

3 Better Regulation

3.1 One of Treasury's roles is helping to promote Better Regulation across all government policies. Budget 2011 and the *Plan for Growth* announced a moratorium on new regulation for micro businesses, scrapping plans for £350 million per annum of new regulations, and the launch of the Red Tape Challenge website,[1] which asks for ideas from the public on regulation that should be kept, amended, or scrapped.

HM Treasury regulation

3.2 Ensuring that financial services are properly regulated remains a priority. Events in recent years have shown that HM Treasury needs to strengthen the financial stability framework, but the Better Regulation principles of ensuring that there are no unnecessary or outdated regulatory burdens still apply.

3.3 One-in, One-out is the Government's policy not to introduce new domestic regulation with a net cost to business unless other regulatory costs have been scrapped. Treasury has not introduced any regulations which impact on the One-in, One-out commitment over the last year. The Treasury has introduced and revoked regulations that meet international or European obligations, or tackle systemic financial risk. Both of these types of legislation are out of scope of One-in, One-out.

3.4 In 2010-11, 75 per cent of Treasury Impact Assessments (IAs) received "fit for purpose" opinions when they were first submitted to the Regulatory Policy Committee (RPC), the independent body that provides challenge and advice on the quality of IAs. HM Treasury submitted 16 IAs to the RPC. Five of these were at consultation stage, four of which received "fit for purpose" opinions. Eleven were final stage Impact Assessments, of which three received "not fit for purpose" opinions the first time they were submitted to the RPC. HM Treasury performance is better than the Whitehall average, as so far 40 per cent of Impact Assessments have received "not fit for purpose" opinions.

3.5 HM Treasury is carrying out a fundamental reform of the UK system of financial regulation to deliver more judgement led, focussed and effective regulation of the financial services sector. A new Financial Policy Committee in the Bank of England will take charge of macro-prudential regulation. The Bank of England will regulate settlement systems and central counterparty clearing houses. A Bank of England subsidiary - the Prudential Regulation Authority (PRA) - will be responsible for microprudential regulation, undertaking the prudential regulation of deposit-takers, insurers and certain investment firms using a more judgement-based approach.

3.6 The Financial Conduct Authority (FCA) will focus on delivering the right outcomes for consumers, regulate conduct of business generally, market conduct, investment exchanges and listing. The FCA will also be responsible for consumer protection in financial services and for prudential regulation of non-PRA regulated firms.

3.7 HM Treasury looks to implement alternatives to regulation when possible. In December 2010, the Treasury launched a comprehensive consultation around high level principles for a

[1] www.redtapechallenge.cabinetoffice.gov.uk

new category of simple Financial Services products. This initiative is designed to help individuals to take personal responsibility for their finances. It is an example of how alternatives to regulation can be used to promote responsible behaviour by industry and to help consumers make better choices.

3.8 HM Treasury conducts impact analysis which is used to influence EU level negotiations. An example of this is the revision of the Prospectus Directive, which has resulted in reduced costs to business. In line with the Government's commitment not to introduce new regulation for micro-businesses for the next three years, the UK has sought exemptions for micro-businesses from the EC Regulation on the Single European Payments Area. At the transposition stage, HM Treasury avoids gold-plating EU legislation wherever possible.

4 Corporate Governance

4.1 The corporate governance of the Treasury Group is designed to ensure that all members of the Group are effectively directed, controlled and supported in delivering their objectives.

4.2 The Ministerial Board manages the Group in a manner that enables the constituent parts and their individual management boards to run the day-to-day business of the Group. The Board provides strategic input, direction and leadership, as well as oversight of risk. The Ministerial Board, its Committees, their membership and their remits are described in this chapter.

4.3 The Treasury Group complies with the provisions in the *Corporate Governance Code of Good Practice*[1] and aims to ensure it has the most effective and efficient corporate governance framework possible.

4.4 At the start of 2010-11, the Treasury Group consisted of five organisations: HM Treasury, including the Office for Budget Responsibility and the Office of Tax Simplification; the Asset Protection Agency; the UK Debt Management Office; the Royal Mint Advisory Committee; and the Office of Government Commerce.

4.5 In June 2010, the Office of Government Commerce was subject to a machinery of government change and transferred to the Cabinet Office as part of the newly created Efficiency and Reform Group.

Ministerial Responsibilities

4.6 The Chancellor of the Exchequer, the Rt Hon George Osborne MP, has overall responsibility for the Treasury. He is supported by:

- the Chief Secretary to the Treasury, the Rt Hon Danny Alexander MP;
- the Financial Secretary to the Treasury, Mark Hoban MP;
- the Exchequer Secretary to the Treasury, David Gauke MP;
- the Economic Secretary to the Treasury, Justine Greening MP; and
- the Commercial Secretary to the Treasury, Lord Sassoon.

4.7 The Rt Hon David Laws MP held the post of Chief Secretary to the Treasury from 12 May to 29 May 2010.

4.8 Details of Treasury Ministers' responsibilities are illustrated at the end of the introduction to this report.

4.9 The precise responsibilities of these roles changed during the year. Following the election during May 2010, the position of Commercial Secretary was created and the positions of Financial Services Secretary and that of Minister of State responsibility for Revenue Protection at the border were ceased.

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

4.10 Details of the individual Ministers serving during 2010-11 can be found in the remuneration report.

The Treasury's Board Structure

Ministerial Board

4.11 The Treasury's governance structure was reconstituted following the General Election. The Ministerial Board, chaired by the Chancellor and attended by a balanced representation of Ministers, Non Executive Board Members and senior officials met twice over the course of 2010-11.

4.12 The Board takes decisions on strategic matters that relate to the Treasury Group. Its aim is to lead a Treasury that delivers its objectives and targets now and in the future.

4.13 The Chancellor, Ministers, Non Executive Board Members and senior officials now meet quarterly to engage on performance and give and receive feedback on progress against delivery objectives. This reorientation of the Board occurred following the appointment of a Lead Non Executive Board Member, Baroness Sarah Hogg, in January 2011.

4.14 The Ministerial Board delegates decision making on some day-to-day issues to its supporting committees.

Board Committees

Departmental Board

4.15 The Departmental Board, made up of Executive and Non Executive Members meets quarterly, alternating meetings with the Ministerial Board. The Board considers Group risk and performance as standing agenda items, with an additional 'open session' to discuss issues of particular interest or items which need Board approval.

4.16 Membership of the Departmental Board at 31 March 2011 was as follows:

Executive Board Members:

- Sir Nicholas Macpherson - Permanent Secretary
- Tom Scholar - Second Permanent Secretary
- Michael Ellam – Director General, International and EU
- Andrew Hudson – Director General, Public Services
- Dave Ramsden - Director General, Chief Economic Adviser
- Jonathan Taylor – Director General, Financial Services
- Edward Troup – Director General, Tax and Welfare
- Mark Bowman – Director, Strategy, Planning and Budget
- Julian Kelly – Group Director, Finance and Commercial
- Emma Lindsell – Director of Corporate Services

Non Executive Board Members:

- Baroness Sarah Hogg – Chair of the Financial Reporting Council, Senior Independent Director of BG Group, Non-executive director of John Lewis Partnership and Chairman of the Frontier Economics Group (appointed Lead Non Executive Board Member in January 2011)

- Dame Deirdre Hutton DBE – Chair of the Civil Aviation Authority; Non Executive Director at Thames Water and former Chair of the Food Standards Agency
- Sir Callum McCarthy – Chairman of European Operations, JC Flowers; Non Executive Director, One Savings Bank, NICB, ICBC and Intercontinental Exchange and former Chairman of the Financial Services Authority
- Michael O'Higgins – Chairman of the Audit Commission; Chairman of the Pensions Regulator; Non Executive Director, Investec-Calculus Venture Capital Trust

4.17 During 2010-11 the Board membership changed due to some members leaving the Treasury Group or stepping down, as detailed below:

Executive Board Members:

- Louise Tulett - Director of Finance and Procurement
- Ray Shostak – Head of Prime Minister's Delivery Unit and Performance Management
- Nigel Smith – Chief Executive of the Office of Government Commerce

Non Executive Board Members:

- Sir William Sargent - Chief Executive of Framestore

4.18 On 4 April 2011 Alison Cottrell took the role of Director, Corporate Services on an interim basis.

4.19 In addition to the scheduled Board meetings, the Permanent Secretary meets with the Non Executive Members twice a year to discuss the performance of the Departmental Board, the Directors General's appraisals and succession planning issues. A formal evaluation of Board performance will take place during 2011-12.

4.20 All Board members are required to notify the secretariat of any matters, including investment decisions, which might give rise to a conflict of interest. Non Executive Members receive formal and informal induction on appointment. Individual Executive Members meet Treasury Ministers on a regular basis.

Executive Management Board

4.21 The Executive Management Board (EMB, chaired by the Permanent Secretary and attended by the Directors General and the Directors of Finance, Strategy and Corporate Services) meets weekly to discuss current issues and take decisions (where required) between Board meetings on issues affecting the Treasury.

Risk Committee

4.22 Over 2010-11, the Executive Management Board met as the Risk Committee every eight weeks. A Non Executive Board Member and a member of the Audit Committee were invited to attend.

4.23 Meetings took evidence from the Economic, Fiscal and Operational Risk Groups. These sub groups are chaired by members of the EMB who are, in turn, held to account by the Risk Committee.

Audit Committee

4.24 The Treasury Group is supported by the Principal Audit Committee, with additional audit committees to support the Accounting Officers for the DMO and APA.

4.25 The Principal Audit Committee supports the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities for managing risk, internal control and governance, related to the Central Funds and the Group's Resource Account.

4.26 Members of the Committee are appointed by the Permanent Secretary for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the Permanent Secretary and presents a regular report to the Board. The membership of the Committee during 2010-11 was:

- Michael O'Higgins (Chair) – Non Executive Board Member, HM Treasury;
- Mike Ashley – Head of Quality and Risk Management, KPMG Europe LLP; Board Member, KPMG Europe LLP;
- Zenna Atkins – Chief Executive Officer, Wey Education PLC; Managing Director, Zail Enterprises Ltd; Chair, Royal Navy Audit Committee; Non Executive Director, Royal Navy Board;
- Janet Baker – Non Executive Director & Commissioner, Audit Commission; Non Executive Director, Defence Support Group, MoD; Non Executive Director, Rural Payments Agency;
- Bradley Fried – Managing Partner, Grovepoint Capital LLP, Non Executive Director of the Group Board, Investec plc and former CEO, Investec Bank plc; and
- Avinash Persaud – Chairman, Intelligence Capital.

4.27 The Audit Committee took the opportunity for pre-committee discussions with the National Audit Office and the Group Head of Internal Audit. The Committee met five times in 2010-11.

Group Internal Audit

4.28 The Group Head of Treasury Internal Audit is the nominated officer for HM Treasury's whistle blowing policy and he has direct access to the Chair of the Audit Committee. He was nominated by the Permanent Secretary under the Treasury's fraud policy.

4.29 HM Treasury's Government Internal Audit Standards require each Internal Audit Unit to have undertaken an external quality assurance review at least every five years. Treasury Group Internal Audit (TGIA) was restructured in April 2007 as part of the Group Shared Services Structure when the Finance, HR and IT departments of the Treasury and Office of Government Commerce merged and an external review is planned in 2011.

HM Treasury Internal Structure

4.30 Towards the end of 2010-11, the Treasury changed the structure of the Department from large Directorates to smaller Director led Groups. Directors are now held accountable for corporate objectives and priorities and the associated discrete areas of work, including the budget and staff required to deliver.

4.31 To complement the clearly defined programme of work, the Department has introduced new, more flexible, internal systems capable of shifting resources to meet changing demands, priorities and risks. The Executive Management Board holds Directors to account, while focusing on the Treasury's overall direction and key issues such as resourcing and risk management in the Department.

4.32 Diagrams illustrating the old and new Treasury internal structures can be found at the end of the introductory chapter to this report and the Organisation Chart for the Department can be found on the Treasury website.[2]

Governance of the wider Treasury Group and related bodies

4.33 Each Group member and related body has its own internal governance structure responsible for making day-to-day decisions relating to matters within its organisation, consistent with the framework and remits agreed with Treasury Ministers and any Group-wide strategic decisions of the Treasury Board.

Asset Protection Agency

4.34 The Asset Protection Agency (APA) is an Executive Agency of the Treasury, established in December 2009 to operate the Asset Protection Scheme.

4.35 The APA's principal responsibilities are to:

- ensure that RBS complies with the terms and conditions attached to its participation in the Scheme;
- forecast potential future payouts under the Scheme to enable the Treasury to predict any fiscal impact; and
- verify the losses and recoveries on covered assets and advise the Treasury on any payments under the Scheme.

4.36 The APA is composed of a mix of civil servants, secondees and contractors to carry out its role, reflecting the short-term nature of the agency and specialist skills base required. The relationship between APA and the Treasury, including the overarching set of controls, is set out in a Framework Document, available on the APA website.[3]

4.37 The Chief Executive of APA is an Agency Accounting Officer and is responsible for the Agency's use of resources and operation of the Scheme, advising and reporting to the Treasury as necessary.

4.38 The APA has established an Advisory Board with committees to support the Chief Executive. Members include Non Executive Directors who have been appointed to advise the Chief Executive and other members of the senior management team. Accountability for all decisions remains with the Chief Executive. The APA has also appointed internal auditors to analyse and test the system of internal control and business processes that exist in the Agency.

The Bank of England

4.39 The Bank of England is the UK's central bank and is responsible for maintaining stable prices and confidence in the currency, as well as detecting and reducing threats to the financial system as a whole.

4.40 The relationship between the Treasury and the Bank of England is governed by the Bank of England Act (1998).[4] Part 1 of the Act sets out the constitution, regulation and financial arrangements for the Bank, including the requirements for the Bank to report annually to the Chancellor on its activities and its accounts. The Act provides for a Court of Directors and a Committee of Non-executive Directors ('NedCo') within Court.

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[2] http://www.hm-treasury.gov.uk/d/hmt_orgchart.pdf
[3] http://www.hm-treasury.gov.uk/apa.htm
[4] http://www.bankofengland.co.uk/about/legislation/1998act.pdf

4.41 Court is responsible for managing the Bank's affairs, other than in the formulation of monetary policy. This includes determining the Bank's objectives and strategy, and aiming to ensure the most efficient use of the Bank's resources. Court is also responsible for determining the Bank's financial stability strategy. NedCo has responsibility for reviewing the Bank's performance in relation to its objectives and strategy, monitoring the extent to which the Bank's financial management objectives are met, and reviewing the Bank's internal controls.

4.42 The Court currently consists of the Governor, two Deputy Governors and up to nine Non Executive Directors. All are appointed by the Crown on a recommendation of the Prime Minister, as advised by the Chancellor. The Governor and Deputy Governors are appointed for a period of five years and the Directors for three years. The Chancellor appoints the Non Executive Chairman of Court and NedCo.

4.43 Part 2 of the Act sets out Monetary Policy arrangements. The Act establishes a Monetary Policy Committee (MPC), and sets a framework for its operations. The Treasury's role is limited to the specification of the price stability target and articulating the economic policy of the Government. The Bank's MPC is made up of nine members – the Governor, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members appointed directly by the Chancellor. The appointment of external members ensures that the MPC benefits from thinking and expertise in addition to that gained inside the Bank of England.

4.44 In February 2011, the interim Financial Policy Committee (FPC) was established as a sub-committee of Court. The interim FPC will carry out, as far as possible, the duties of the permanent FPC that will be created by the Financial Services Bill, which is currently undergoing pre-legislative scrutiny in Parliament.

4.45 The statutory provisions are supplemented at an operational level with several written memoranda of understanding and service level agreements setting out definitions of how the relationship functions across different areas, and the duties and responsibilities of key players. More details of the work of the Bank of England can be found on its website[5].

Buying Solutions

4.46 Buying Solutions is a trading fund and an Executive Agency of the OGC, which was itself an Office of the Treasury. As part of the machinery of government change in June 2010, Buying Solutions transferred to the Cabinet Office, along with the OGC.

UK Debt Management Office

4.47 The UK Debt Management Office (DMO) is an Executive Agency of the Treasury, established in April 1998. The DMO's remit is to carry out the Government's debt management policy of minimising financing costs over the long term, taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating in a risk appetite approved by Ministers in both cases.

4.48 The Chancellor of the Exchequer determines the policy and financial framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management, and day-to-day management of the office. The separate responsibilities of the Chancellor and other Treasury Ministers, the Permanent Secretary to the Treasury and the DMO's Chief Executive are set out in a Framework Document, available on the DMO website.[6]

[5] http://www.bankofengland.co.uk

[6] http://www.dmo.gov.uk

4.49 The Chief Executive is accountable for the DMO's performance and operations, both in respect of its administrative expenditure and the Debt Management Account (DMA) which records all the DMO's issuance and trading transactions. The DMO publishes its Business Plan in April each year and this sets out a series of long-term targets for the year derived from the DMO's strategic objectives. The DMO's strategic objectives and its operational targets for the current financial year are also available on the DMO website.

4.50 The DMO's Managing Board is responsible for strategic, operational and management issues. It is chaired by the Chief Executive of the DMO and comprises four Executive members (including the Chief Executive) and three Non-Executive Directors, including a Treasury representative. It met eight times in 2010-11. Further information is available in the DMO and DMA Report and Accounts 2010-11.

Infrastructure Finance Unit

4.51 Infrastructure Finance Unit Limited was established in April 2009 to act as the lender of record for all transactions, supported by The Infrastructure Finance Unit (TIFU). As part of the creation of Infrastructure UK, TIFU staff became part of Infrastructure UK (a group within the Treasury), and continue to operate the activities of TIFU.

Office for Budget Responsibility

4.52 The Office for Budget Responsibility (OBR) is a Non Departmental Public Body (NDPB), established under the Budget Responsibility and National Audit Act 2011 with a main duty to examine and report on the sustainability of the public finances. The OBR performs this duty independently, subject to its other statutory duties, and the guidance in the Charter for Budget Responsibility.[7]

4.53 The OBR has a statutory duty to carry out a number of core functions within its main duty. The OBR must:

- produce fiscal and economic forecasts twice each financial year including independent scrutiny of Government costings and any resultant impact on the economic forecast;
- make an assessment of the extent to which the fiscal mandate has been, and is likely to be, achieved alongside those forecasts;
- make an assessment of the accuracy of previous fiscal and economic forecasts at least once each financial year; and
- produce an analysis of the sustainability of the public finances at least once each financial year.

4.54 A Memorandum of Understanding (MOU) has been drawn up detailing the relationship between the OBR's relationship with the Treasury on the forecast and analysis, this can be found on the OBR website.[8]

Office of Government Commerce

4.55 The Office of Government Commerce was subject to a machinery of government change in 2010 and transferred to the Cabinet Office as part of the newly created Efficiency and Reform Group.

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[7] http://budgetresponsibility.independent.gov.uk/wordpress/docs/charter_budget_responsibility040411.pdf
[8] http://www.budgetresponsibility.independent.gov.uk

Office of Tax Simplification

4.56 The Office of Tax Simplification (OTS) has been established as an independent Office of the Treasury for the life of the current Parliament to provide advice to the Chancellor on simplifying the UK tax system. Its aim is to develop the evidence base and make recommendations on reforms that simplify the tax system and reduce the burden of tax compliance on business and individuals.

4.57 The work of the Office is led by the Chair and Tax Director. The Rt Hon Michael Jack and John Whiting have been appointed to these posts on an interim basis to establish and lead the Office for its first year. Permanent appointments will be made through open competition during 2011.

4.58 Full details on the work of the Office, and the relationship between the Treasury and the Office, is set out in the OTS' framework document.[9]

Partnerships UK

4.59 Partnerships UK (PUK) is the successor body of the Treasury Taskforce, created in 2000 as a central support body for the UK's Private Finance Initiative. It was set up with the private sector owning a 51 per cent majority shareholding in the company, and the public sector owning a 49 per cent investment (HM Treasury 45 per cent, Scottish Executive 4 per cent).

4.60 The Treasury's shares in PUK give the Treasury the right to nominate two Non Executive Directors to sit on the PUK Board. In addition, the Shareholder Executive (ShEX) advises Treasury in fulfilling its shareholder function in relation to PUK.

4.61 On 31 July 2010 as part of the creation of Infrastructure UK (a Group within Treasury providing a strategic focus for UK infrastructure), Treasury purchased the Major Projects business from PUK, including its commercial specialists who were transferred into HM Treasury under TUPE legislation. Following this change, PUK has begun the process of selling its remaining assets with a view to winding up during the financial year 2011-12, at which point all shareholders are expected to receive their relevant share.

4.62 On 31 July 2011, HM Treasury acquired PUK's 50 per cent interest in Local Partnerships[10] – a joint venture with the Local Government Association. The Treasury has appointed two Non Executive Directors to the Board of Local Partnerships.

Royal Mint

4.63 The Royal Mint's primary purpose is the provision and maintenance of UK coinage. It also provides coinage services to overseas central banks and mints. It manufactures official medals and collectables for both the UK and overseas retail and wholesale markets.

4.64 The Royal Mint Limited is a Government-owned company that was vested in December 2009 and is the subsidiary of the Royal Mint Trading Fund. The Treasury has both a shareholding and a customer relationship with the Royal Mint Limited. The Chancellor of the Exchequer is Master of the Mint. The Chancellor has delegated responsibility for coinage policy to the Economic Secretary; the day-today shareholding responsibilities are delegated to the Shareholder Executive.

4.65 The Treasury takes advice on the operation of its shareholder interest from the Shareholder Executive. The exact nature of this arrangement and the relative involvement of Shareholder Executive officials with the Royal Mint and with the Treasury is set out in the Delegated Remit.

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[9] http://www.hm-treasury.gov.uk/d/ots_framework_document_jul10.pdf

[10] http://www.localpartnerships.org.uk

The Royal Mint Limited reports formally to the Accounting Officer of the Royal Mint Trading Fund on the Royal Mint's financial performance - both achieved and prospective - twice each year.

4.66 Treasury Ministers appoint the Chief Executive and Deputy Master of the Mint and the Chairman, and the Board of the Royal Mint Limited is responsible for all other appointments.

4.67 Since January 2010, the customer relationship has been governed by the UK Coin Contract, which sets out the arrangements for the supply of UK coinage (a Service Level Agreement was in place prior to this date). More information on the Royal Mint can be found on its website.[11]

Royal Mint Advisory Committee

4.68 The Royal Mint Advisory Committee is an NDPB. HM Treasury became its parent department in January 2010 under arrangements for vesting the Royal Mint. The Committee has around a dozen members and usually meets two or three times a year to make recommendations to the Chancellor on the design of new coins.

4.69 Appointments are approved by the Queen on the recommendation of the Chancellor, and the appointment process conforms to the guidelines set out by the Office of the Commissioner for Public Appointments. Committee members are appointed for seven-year terms, with the option of extending membership for a further three years.

Royal Mint Museum

4.70 On 31 December 2009, the Royal Mint Museum was established as a company limited by guarantee, wholly owned by HM Treasury. The Museum's purposes are to:

- manage, safeguard, conserve and provide access to the national coin collection and archive;
- restore and preserve objects associated with the history of coinage and the Royal Mint; and
- protect and enhance the numismatic heritage of the United Kingdom.

4.71 The Museum achieved charitable status in November 2010 and is governed by a Board of Trustees, drawn from the Royal Mint and HM Treasury and externally.

UK Financial Investments

4.72 UK Financial Investments Limited (UKFI) is a registered Company, wholly owned by the Government. It was established to manage the Government’s shareholdings in UK financial institutions, acquired through recapitalisation and other financial stability interventions in 2008 and 2009. UKFI is responsible for managing Government’s shares in Royal Bank of Scotland, Lloyds Banking Group, Northern Rock plc, Northern Rock Asset Management and Bradford and Bingley.

4.73 UKFI’s objectives are to:

- develop and execute an investment strategy for disposing of the Government’s shareholdings in an orderly and active way through share sale, redemption, buy-back or other means; and

[11] www.royalmint.com

- manage the Government's shareholdings to protect and create value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and acting in a way that promotes competition.

4.74 HM Treasury's shareholder relationship with UKFI is set out in more detail in the UKFI Framework Document and Investment Mandate, both of which are available on the UKFI website.[12]

4.75 More details on Government's holdings in financial institutions and of UKFI's activities over the last year are provided in UKFI's Annual Report and Accounts 2010-11, also available on the UKFI website.

Public Appointments

4.76 Responsibility for individual appointments is delegated to sponsor teams within the Treasury, with the Permanent Secretary's office retaining overall responsibility for those appointments and for standards of propriety.

4.77 Information on the appointments overseen by the Treasury is available on the Treasury's website.[13]

4.78 The Treasury is committed to achieving the highest standards in public appointments. Processes are fair and transparent, and diversity is taken into account, and acted upon, both during recruitment campaigns and generally.

4.79 In order to ensure fairness in its public appointments processes, the Treasury ensures that all advertising welcomes applications from suitably qualified underrepresented groups. For example, Braille and audio copies of application forms are available for all public appointments vacancies.

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[12] http://www.ukfi.co.uk

[13] http://www.hm-treasury.gov.uk/about_appointments_plan.htm

5 Corporate Information

Introduction

5.1 This chapter provides information on the way HM Treasury manages itself, including people, security of data, sustainable development and its relationship with Parliament.

People

5.2 As at 31 March 2011, the Treasury Group had 1,377 Full Time Equivalent (FTE) staff. Compared with earlier years there has been a reduction in the number of new starters. The tables that follow provide greater detail on these numbers and include data on recruitment, diversity and the number (based on FTE's) of staff working across the Group.

Recruitment

5.3 HM Treasury implemented the May 2010 civil service recruitment freeze, and only posts of a business critical nature, where skills are not available internally, are advertised externally. This has resulted in a higher number of loans and transfers in from other government departments, and a much lower number of FTE's and permanent appointments compared to previous years.

Table 5.A: Treasury Group Recruitment

Range	Permanent appointment (inc permanent transfers from other Departments	Fixed-term appointments[1]	Loans from other government departments	Secondments	Total
B	10	9	-	-	19
C	8	2	5	0	15
D	34	9	23	26	92
E	9	2	28	6	45
SCS	2	-	2	-	4
Total	63	22	58	32	175

Source: HM Treasury

[1] Excludes the 42 sandwich and placement students recruited via the Government Economic Service

Staff numbers across the Treasury Group

5.4 The tables below show the staff numbers for the Treasury Group for the last three years between 31 March 2009 and 31 March 2011, and the numbers of Senior Civil Service staff by pay band for 31 March 2011 and 31 March 2010.

Table 5.B: Treasury Group Staff Numbers[2]

Full time Equivalents (FTE's)	31 March 2009	31 March 2010	31 March 2011
Core Treasury			
CS Permanent	1,156	1,278	1,204
CS Casual	87	72	45
Total	1,243	1,350	1,249
DMO			
CS Permanent	79	90	93
CS Casual	7	1	-
Total	86	91	93
APA			
CS Permanent	-	29	35
CS Casual	-	7	-
Total	-	36	35
Treasury Group			
CS Permanent	1,235	1,397	1,332
CS Casual	94	80	45
Total	1,329	1,477	1,377
Source: HM Treasury			

Table 5.C: Numbers of Senior Civil Service staff by pay band

Range	31 March 2010	31 March 2011
F	99	92
G	35	27
H	9	7
Total	143	126
Source: HM Treasury		

[2] Staff numbers for core Treasury, DMO and APA have been compiled and are in accordance with ONS reporting requirements. These figures exclude OGC staffing figures following the Machinery of Government transfer, contract and agency workers, and staff on unpaid maternity leave, unpaid sick absence or career breaks.

Diversity

5.5 HM Treasury seeks to promote a culture that values difference and recognises that diversity enriches the economy and society and is an essential ingredient of change and progress.

5.6 As an employer, the Department seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented workforce that is representative of the society it serves. The table below provides diversity statistics for staff employed by the Treasury.

Table 5.D: Diversity as at 31 March 2011

Range	Women (per cent)	People from minority ethnic backgrounds (per cent)	People with disabilities (per cent)
B	76.7	36.9	9.7
C	62.6	30.7	9.2
D	44.5	15.2	3.2
E	37.9	5.5	5.3
F, G, H	38.0	5.6	2.7
Total	47.8	16.0	5.4

Source: HM Treasury

5.7 As with other government departments, HM Treasury's April 2011 diversity targets for the Senior Civil Service (Ranges F, G and H above) are to increase the proportion of women (to 42 per cent), ethnic minorities (to 5 per cent) and people with disabilities (to 5 per cent). In addition, the target for the proportion of women employed at Range G and above is 35 per cent (the proportion of women employed at Range G and above as at 31 March 2011 was 31.8 per cent).

Health, safety and well-being

5.8 The Treasury recognises that ensuring the health, safety and well-being of staff is not only good for staff engagement, but also for efficiency and productivity. The Department has also reviewed the Employee Assistance Programme (EAP) and Occupational Health Services (OHS) and changed contractors, to join other government departments' contracts. This is in line with the general move to sharing services and making efficiencies.

5.9 Sickness absence in the Department continues at a level which is less than half of the overall Civil Service rate and the long term trend has been downwards. The primary causes of sickness absence are musculoskeletal disorders (such as back pain), and stress, anxiety or depression. As a result of our focus on workstation assessments and training and information given to staff, the number of working days lost to sickness absence as a result of musculoskeletal disorders fell from 848 days at the start of the project in 2007-08 to 208 days in 2010-11.

5.10 The new OHS have improved the quality and focus of workstation assessments and the advice given to staff. The improvements to the OHS and the EAP also provide support for people suffering from stress. The EAP provides a website and a 24/7 helpline for emotional support, advice and information and access to counselling services. There is also assistance for line managers who may be dealing with difficult staff issues.

5.11 The number of people injured as a result of slips, trips and falls has been reduced by half, from 10 in 2009-10 to five in 2010-11. There were, however, three incidents that met the criteria for reporting to the Health and Safety Executive. These were: one diagnosis of repetitive strain injury, an incident resulting in a fractured knee and one lost time accident that resulted in more than three days' absence.

Sickness Absence

5.12 In 2010-11 there were 3.3 average working days lost to sickness absence per staff year within the Treasury Group (2009-10: 3.6 days). For HM Treasury the figure was 3.4 days (2009-10: 3.6 days). The proportion of staff with no sickness absence recorded by the Treasury Group was 56 per cent (2009-10: 49 per cent), while for the Department, 68 per cent of staff had no recorded sick absence during the year (2009-10: 64 per cent).

People Strategy and the Strategic Review

5.13 At the beginning of 2010 the Treasury launched the People Strategy to equip senior managers to plan, develop and deploy its staff more actively and strategically; and to equip staff to steer their career more confidently.

5.14 During the year the Department set up a project to take forward a Strategic Review which undertook to reform business processes, implement the People Strategy and invest in staff as well as making more effective use of the supporting infrastructure. Key to this process is the ability of the corporate centre to provide the necessary resources as well as a flexible and responsive support service to the rest of the Treasury Group.

5.15 The Strategic Review team worked with staff from across the department to produce an effective blueprint going forward, helping to implement the Spending Review 2010 settlement and deliver the department's Business Plan objectives from 2011-2015. The corporate centre supported this process in enabling the new group structure of the department to be implemented from 1 April 2011 as planned.

5.16 The Strategic Review has reinforced the importance of continuing this work and the Treasury has underlined its commitment to investing in staff. As part of the overall People Strategy the departmental budget for learning and development has been protected, setting aside the equivalent of £1,500 per head for 2011-12. In addition, HM Treasury received Investors in People (IiP) re-accreditation in January 2011 which covers the period to December 2013.

Reward and Recognition

5.17 The Treasury Group has a policy to recognise those staff that have performed exceptionally in their roles through the payment of non-consolidated performance pay which is paid in two circumstances:

- non-consolidated performance pay linked to the annual staff appraisal system; and
- special bonuses paid to staff in-year to recognise specific contributions or pieces of work

5.18 Due to the nature of the performance appraisal system, non-consolidated performance pay is paid in the year following the year for which performance has been assessed. Therefore, that paid in 2010-11 related to performance in 2009-10. Total non-consolidated performance pay in 2010-11 came to £904,856 (2009-10: £1,217,668) and special bonuses were £127,383 (2009-10: £98,211).

Security

5.19 The Department continues to monitor and assess its information risks in order to identify and address any weaknesses.

5.20 One incident was reported to the Information Commissioners Office. The incident occurred in October 2010 and involved some postcards giving personal comments on the 2010 Spending Review. This low sensitivity personal data was incorrectly sent to an inappropriate address. All the items were recovered during 2010-11.

5.21 Incidents deemed by the Data Controller not to fall within the criteria for the report to the Information Commissioner's Office but recorded centrally within the Department are set out in the Table below. Small localised incidents are not recorded centrally and are not cited in these figures.

Table 5.E: Personal Data Incidents : 2010-11

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	0
V	Other	0

Source: HM Treasury

Sustainable development

Government Commitments

5.22 The Greening Government Commitments (GGCs) are the UK Government's commitments for delivering sustainable operations and procurement across the Government estate. The commitments apply to the office and non-office estate of Central Government Departments and their Executive Agencies, Non-Ministerial Departments, and Non-Departmental Public Bodies (NDPBs). Part of this package of measures included a pledge to cut carbon emissions from the Central Government estate and business-related transport by 10 per cent from the 2009-10 baseline within 12 months.

5.23 Over the past 12 months, the Treasury Group has been successful in reducing energy consumption by 14.6 per cent[3] compared with 2009-10. A significant contribution to this reduction has been an IT rationalisation project.

5.24 Another contributory factor has been the monitoring and management of building systems to ensure that they are being operated as efficiently as possible at all times. In recent months smart meters have been installed on the estate which will allow for greater granularity and management of energy data.

[3] This figure is provisional and subject to verification and validation by the Efficiency Reform Group

5.25 The Accounting for Sustainability framework will commit all government bodies that produce Annual Reports and Accounts in accordance with the 2011-12 government Financial Reporting Manual (FreM), to publish an annual sustainability report using data collected for the GGCs. This will be included in the Treasury's Annual Report and Accounts for 2011-12.

5.26 As part of the GGC's commitments, HM Treasury publishes real-time energy consumption figures for 1 Horse Guards Road[4]. The Treasury also displays real time data for energy consumption on www.data.gov.uk in support of the transparency agenda.[5]

Estate

5.27 At 1 Horse Guards Road, HM Treasury works closely with its PFI contractor, Exchequer Partnership, who is responsible for managing building services. Exchequer Partnership operates and maintains an Environmental Management System and maintains ISO 14001[6] as part of the contractual agreement. The Cabinet Office leases space at 1 Horse Guards Road which is excluded for reporting purposes. Shared areas are apportioned between both departments.

Transparency data

5.28 The new Transparency Agenda requires all government departments and local authorities to publish a range of data on a variety of operational and performance aspects. This information is included on HM Treasury's website[7] and some information is also carried on the data.gov.uk website.

5.29 This data includes the following information:

- Treasury Group payment performance;
- awarded contracts;
- senior officials business expenses, hospitality and meetings with external organisations;
- Ministers' meetings, hospitality, gifts and overseas travel;
- spend greater than £25,000;
- exceptions to the Cross-Government moratoria on spend in HM Treasury; and
- Treasury officials meeting with the tobacco industry.

Payment of suppliers

5.30 In May 2010, the Government introduced a five day target for SME suppliers to receive payment. This accelerated payment from the previous 10 day target set in November 2008. During 2010-11, the Treasury Group made 87 per cent of all supplier payments within five days (against a target of 80 per cent) and 97 per cent of all supplier payments within 10 days.

[4] http://www.hm-treasury.gov.uk/about_climate_change_plan.htm.

[5] http://data.gov.uk/content/real-time-energy-data-government-headquarters.

[6] The international standard that specifies a process for controlling and improving an organization's environmental performance

[7] http://www.hm-treasury.gov.uk/about_departmental_index.htm

Relationship with Parliament

House of Commons Treasury Committee

5.31 The Treasury has maintained close links with the House of Commons Treasury Committee on a wide range of issues including the development of a new financial regulatory structure, Parliamentary engagement on the appointment of the Head of the Office of Budget Responsibility and post-Budget inquiries.

5.32 Details on specific evidence sessions before the Treasury Committee from May 2010 to 31 March 2011 are listed below:

Table 5.F: Parliamentary Hearings in 2010-11 – House of Commons Treasury Committee

Date of Hearing	Subject
July 2010	Budget 2010
November 2010	Financial Regulation
November 2010	Spending Review 2010
December 2010	Autumn Forecast 2010
February 2011	Competition and Choice in the Banking Sector
March 2011	Budget 2011

Source: House of Commons Treasury Committee

Committee of Public Accounts

5.33 The Comptroller and Auditor General (C&AG) and the Committee of Public Accounts (PAC) scrutinise public spending on behalf of Parliament and check for probity, accuracy and value for money. Working with the C&AG and the PAC, HM Treasury will continue to promote and sustain a central Government culture in which public money is handled responsibly, transparently and to high standards of accountability.

5.34 Through the Budget Responsibility and National Audit Act 2011, the Government has implemented the recommendations of the Public Accounts Commission's fifteenth report on corporate governance at the National Audit Office (HC 402). This Act modernised the corporate governance of the NAO by setting it up as a corporate body in its own right, enabling it to constructively challenge the C&AG, while retaining his statutory functions. The Department is in the process of bringing the Act into force.

5.35 Details on specific evidence sessions before the Committee of Public Accounts from 2010-12 are listed in table 5.G.

5.36 As well as working closely with both the Treasury Committee and the PAC, Treasury Ministers have appeared before several other Select Committees, including giving evidence to the House of Lords Economic Affairs Committee on the economy, the Northern Ireland Affairs Committee on the rebalancing of the Northern Ireland economy, the Scottish Affairs Committee on the video games industry and the Environmental Audit Committee on the Green Investment Bank.

Table 5.G: Parliamentary Hearings in 2010-11 – Committee of Public Accounts Table

Date of Hearing	Subject
October 2010	Financing PFI projects in the credit crisis and HM Treasury's response
November 2010	Comprehensive Spending Review
November 2010	Comprehensive Spending Review: analysis of Departmental Business Plans
January 2011	Accounting Officer accountability
February 2011	Asset Protection Scheme
February 2011	Banking support
March 2011	Public Service Pensions
March 2011	Stewardship of wholly owned banks
June 2011	Banking support
Source: Committee of Public Accounts	

Recommendations by the Committee of Public Accounts

5.37 Central guidance requires departments to report on the recommendations made by the PAC where the department is the principle party to respond. Since 2002 there have been 21 PAC Reports that have made recommendations requiring action by the Treasury Group as summarised in the table below.

Table 5.H: Recommendations for HM Treasury (core Treasury)

Date of Publication	Title of Report
11 July 2002	2002 – 42nd PAC Report: Managing the relationship to secure a successful partnership in PFI projects
17 July 2002	2002 – 43rd PAC Report: The use of funding competitions in PFI projects – HM Treasury Building
13 June 2003	2003 – 22nd PAC Report: PFI refinancing update
19 June 2003	2003 – 28th PAC Report: Delivering better value for money from the Private Finance Initiative
16 July 2003	2003 – 35th PAC Report: PFI construction performance
14 June 2005	2005 – 20th PAC Report: PFI: the STEPS deal
15 May 2007	2007 – 25th PAC Report: Update on PFI debt refinancing and the PFI equity market
27 November 2007	2007 – 63rd PAC Report: HM Treasury - tendering and benchmarking in PFI
2 September 2008	2008 – 36th PAC Report: HM Treasury - making the changes in operational PFI projects
9 September 2008	2008 – 43rd PAC Report: Managing financial resources to deliver better public services
25 June 2009	2009 – 31st PAC Report: Nationalisation of Northern Rock
9 February 2010	2010 – 12th PAC Report: Maintaining financial stability across the United Kingdom's banking system
6 April 2010	2010 – 33rd PAC Report: Nine reports from the Comptroller and Auditor General published from July 2009 to March 2010
4 November 2010	2010 – 4th PAC Report: Progress with VFM savings and lessons for cost reduction programmes
9 December 2010	2010 – 9th PAC Report: Financing PFI projects in the credit crisis and HM Treasury's response

Date of Publication	Title of Report
18 January 2011	2011 – 14th PAC Report: PFI in housing and hospitals
5 April 2011	2011 – 28th PAC Report: Accountability for public money
20 April 2011	2011 – 31st PAC Report: Asset Protection Scheme
20 April 2011	2011 – 32nd PAC Report: Maintaining financial stability of UK banks: update on the support schemes
24 May 2011	2011 – 37th PAC Report: Departmental Business Plans
26 May 2011	2011 – 38th PAC Report: Public Service Pensions
Source: HM Treasury	

Table 5.I: Progress in implementing outstanding PAC recommendations

63rd PAC Report – Session 2006-07 HM Treasury: tendering and benchmarking in PFI, (27 November 2007)	
PAC Recommendation (3): HM Treasury and Departments should assess the impact of the new procurement regulations by mid-2008 including whether they have reduced the incidence of late changes to deals.	HM Treasury has a historical commitment to the PAC to review the impact of the competitive dialogue procurement process. The Cabinet Office's Efficiency and Reform Group (ERG) are currently undertaking a Lean Procurement Review. The findings of HM Treasury study (published Autumn 2010) have been submitted as evidence to the ERG Review for their consideration. (http://www.hm-treasury.gov.uk/d/ppp_competitive_dialogue.pdf)
28th PAC Report – Session 2010-11: Accountability for Public Money (28 March 2011)	
Letter from Chair to Sir Nicholas Macpherson on draft Corporate Governance Code	HM Treasury and Cabinet Office ensured Corporate Governance Code was consistent with the PAC recommendations
Source: HM Treasury	

Parliamentary Questions

5.38 Treasury Ministers and officials are committed to providing timely and accurate responses to parliamentary questions. The Government has agreed to provide regular statistics to the Procedure Committee.[8] The latest public statistics show that Treasury Ministers responded on or before the parliamentary deadlines in relation to 67 per cent of the 1,259 ordinary written questions and 64 per cent of the 311 named day questions tabled to the department in the course of the 2009-10 parliamentary session.[9] While that is in line with the Whitehall average, the Department will continue to work towards improving its performance.

The Parliamentary Ombudsman

5.39 The Parliamentary and Health Service Ombudsman can investigate complaints against the administrative actions of a wide range of government departments and other public bodies, or the actions of organisations acting on their behalf. In 2010-11, the Treasury has not received any complaints from the Parliamentary Ombudsman's Office nor were any outstanding from the previous year.[10]

[8] Written Parliamentary Questions: Government Response to the Committee's Third Report of Session 2008-09, HL 129, 7 December 2009

[9] http://www.parliament.uk/documents/commons-committees/procedure/P85-GovtMemotoProcCttee-09-10statsFinal170211.pdf

[10] The Ombudsman's 2009-10 report which showed one complaint against HM Treasury in error. This has now attributed to the Valuation Office Agency under the responsibility of HMRC

6 Financial Data and Projections

Introduction

6.1 This chapter provides an overview of the finances of the Treasury Group through comparative tables and additional information. In recognition of the impact the Department's financial stability work has on its performance data, this chapter covers both ongoing financial performance information ('business as usual') and financial stability reporting. The data presented is based on HM Treasury's 2010-11 Resource Accounts, which are included in Chapter 11 of this document.

6.2 As a result of the Clear Line of Sight (CLOS) reforms, the tables included in this chapter summarising the overall financial performance of the Treasury Group have been rationalised and simplified compared to the data presented in previous years. The revised format tables are as follows:

- Table 6.A compares 2010-11 outturn figures against the original and final budgetary control limits;
- Table 6.B summarises the Treasury Group's total public spending, including both resource and capital expenditure;
- Table 6.C reconciles Table 6.B to the Resource Accounts;
- Table 6.D outlines outturn administration costs and budget outturns and planned administration costs for the four Spending Review years up to 2014-15; and
- Table 6.E analyses the capital employed by the Treasury Group.

6.3 Throughout this chapter, the tables and narrative distinguish between expenditure against the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). DELs are firm, multi-year, plans set in spending reviews. AME is more unpredictable, demand-led expenditure that cannot be made subject to plans set at spending reviews and is subject to review twice a year.

6.4 HM Treasury produces three forms of financial information: Estimates, Budgets and Resource Accounts. Estimates represent funds voted by Parliament and cover DEL and AME expenditure. Budgets include DEL and AME expenditure, which include some expenditure for which funds are not voted from Parliament (non-supply). The Resource Accounts provide an outturn of all expenditure, including non-supply (for example banking and gilts registration services).

6.5 HM Treasury's budget regime and the Parliamentary supply regime differ in terms of the boundary of the items included and as a result some items appear in one set of statements but not the other. A reconciliation between the two sets of statements is included in Table 6.C. The implementation of the CLOS reforms from 2011-12 onwards will result in a closer alignment of boundaries.

Treasury Group Finances

Introduction

6.6 Annual funding under the Treasury Group resource DEL for the 2007 Comprehensive Spending Review (CSR) period (which ran from 2008-09 to 2010-11 inclusive) was £222 million, £216 million and £205 million respectively. The 2010-11 DEL was adjusted following the transfer of the Office of Government Commerce (OGC) and for the Department's share of the £6 billion efficiency savings across Government announced in May 2010, resulting in a revised resource DEL of £200 million for 2010-11.

6.7 The CSR settlement was delegated formally in October 2007, before financial stability interventions dominated the department's spending and resourcing plans. The additional capital required for Government interventions and to provide assistance to financial institutions resulted in a demand for capital AME of £85,525 million in 2008-09, £40,653 million in 2009-10 and a net return of capital AME of £2,313 million in 2010-11, as set out in Table 6.B. Further details on the individual interventions and schemes can be found in the Resource Accounts from note 29 onwards.

Overview of the Comprehensive Spending Review Settlement and the Treasury Group's Spending Plan for 2008-09 to 2010-11

6.8 Table 6.A below shows the 2010-11DEL outturn against the original and final budgetary control limits. The key reasons for the change in the resource DEL limit were a draw down from the Modernisation Fund to finance an IT project of £7.6 million and a further £6.4 million to fund preparatory costs for the Equitable Life Payments Scheme and work on new bodies set up following the General Election, in particular: the Office for Budget Responsibility; Office of Tax Simplification; and the Pensions and Banking Commissions.

6.9 Actual pressures on funding turned out to be less than originally forecast, resulting in an under-spend of £17 million against the final resource DEL budget. This was due to a number of factors including: £3 million as a result of decreasing Core Treasury staff numbers ahead of target; additional income from the Cabinet Office for an office reorganisation project of £1.5 million; under-spends on coinage manufacturing of £1.2 million; and tighter spending controls resulting in under-spends of £2.8 million for consultancy and contracted out services and £1.3 million across hospitality, training and travel costs.

6.10 Capital expenditure was £3 million less than anticipated due to a lower level of lending by Infrastructure Finance Unit Ltd.

Table 6.A: Public spending control for the Treasury Group 2010-11

£ million	Para ref	Original DEL budget	Final DEL budget	Outturn
Resource DEL	6.9	**183**	**200**	**183**
of which administration costs	6.9	135	150	139
Capital DEL	6.10	**49**	**49**	**46**

6.11 Table 6.B below provides detail on actual and planned DEL and AME expenditure, split between resource and capital spending. Due to the unpredictability of AME expenditure in relation to financial stability interventions, resource AME expenditure on financial stability and capital AME on assistance to financial institutions are not forecasted.

6.12 The information contained in the table is based on the CLOS consolidation which will be in place from 2011-12 onwards and therefore includes the Office for Tax Simplification (OTS) and

Office for Budget Responsibility (OBR) as organisations separate to HM Treasury from 2011-12. All tables provide figures in £ millions and expenditure less than a million does not appear in the table when rounded but is marked with a dash when the amount is not zero.

6.13 Prior year figures have been restated for the transfer of OGC to the Cabinet Office, and for the removal of cost of capital charges. Further details on these prior period adjustments are included in note 3 of the Resource Accounts.

6.14 Other changes from the prior year presentation of total department spending include the reallocation of the Civil List expenditure from resource DEL to resource AME. From 2011-12 it is included in the 'other functions' amount of £11 million together with the Royal Household Pension Fund.

6.15 Further analysis of the information contained in this table follows in the rest of this chapter, cross-referenced and supported where appropriate by the Resource Accounts.

Table 6.B: Total Departmental spending (resource and capital) for the Treasury Group

£ million	Para ref	Outturn (Restated) 2006-07	2007-08	Plan 2008-09	2009-10	2010-11	Projection 2011-12	2012-13	2013-14	2014-15
Resource DEL										
Core Treasury & GSS[1]	6.17	125	124	125	145	134	153	146	127	106
OBR							2	2	2	2
OTS							-	-	-	-
Coinage	6.19	19	16	15	13	14	14	14	14	15
Other functions[2]	6.20	10	9	8	8	8	-	-	-	-
Banking & gilts registration services	6.21	12	11	11	12	11	13	12	12	13
DMO	6.22	7	10	13	16	15	15	15	15	15
APA[3]										
Total Resource DEL		**173**	**170**	**172**	**194**	**182**	**197**	**189**	**170**	**151**
Resource AME										
Core Treasury: impairment		1	(15)	9	(3)	-	-	-	-	-
Financial stability[4]	6.24			43,714	(22,376)	(11,474)				
Equitable Life Payment Scheme	6.25					1,493	26	14	11	4
Coinage	6.19	23	20	20	15	20	22	21	21	21
BoE dividend	6.26	(83)	(81)	(417)	(97)	(63)	(65)	(65)	(65)	(65)
Other functions	6.20	2	2	2	3	3	11	11	11	11
Total Resource AME		(57)	(74)	43,328	(22,458)	(10,021)	(6)	(19)	(22)	(29)
Total Resource AME and DEL (income)/expenditure		116	96	43,500	(22,264)	(10,149)	191	156	137	118
Of which: depreciation		9	6	8	8	8	8	7	6	6

[1] Group Shared Services.

[2] 'Other functions' comprises expenditure on the Civil List and Royal Household Pension Fund. From 2011-12, Civil List expenditure has been transferred from resource DEL to resource AME.

[3] Costs incurred by the APA in running and administering the Asset Protection Scheme are passed on to RBS, therefore it has a nil net operating cost.

[4] 'Financial stability' comprises fair value movements in derivatives, release of financial stability provisions and impairments of financial instruments.

£ million	Para ref	Outturn (Restated) 2006-07	2007-08	Plan 2008-09	2009-10	2010-11	Projection 2011-12	2012-13	2013-14	2014-15
Capital DEL										
Core Treasury & GSS		2	1	2	55	42	47	23	11	3
DMO		1	1	1	1	1	1	1	1	1
Department Unallocated Provision							4	2	2	1
Total Capital DEL		3	2	3	56	43	52	26	14	5
Capital AME										
Core Treasury			-	-	-	-	-	-	-	-
Assistance to financial institutions	6.28			85,525	40,653	(2,313)				
Total Capital AME			-	85,525	40,653	(2,313)				
Total Capital AME and DEL		3	2	85,528	40,709	(2,270)				
Total Departmental spending		119	98	129,028	18,445	(12,106)				

Table 6.C: Reconciliation to HM Treasury's 2010-11 Resource Accounts

	2010-11 £ million	2009-10 £ million
Total Resource Budget as per Table 6.B, above	(9,836)	(22,264)
Less expenditure not included in the Resource Accounts		
Other functions	(11)	(11)
Add income not included in the Resource Budget		
Income payable to the Consolidated Fund[1]	(2,470)	(5,359)
Add expenditure not included in the Resource Budget		
Cost of Capital		(2,958)
Net operating income per HM Treasury's 2010-11 Resource Accounts	(12,317)	(30,592)

[1] Income payable to the Consolidated Fund relates to income which is not retained by HM Treasury when it is received. For example, it includes fees for financial guarantees and contingent capital, interest income, and dividends. A full breakdown is included in note 10.1 to HM Treasury's Resource Accounts. The only item of income payable to the Consolidated Fund which is included in HM Treasury's Resource Budget is the Bank of England dividend. Therefore this is not included in the reconciliation.

6.16 Table 6.D below provides a more detail analysis of administration costs across the Treasury Group, as included in resource DEL expenditure within Table 6.B.

Table 6.D: Administration costs for the Treasury Group

		Outturn					Plan	Projection		
£ million	Para ref	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Gross administration		139	162	174	217	177	193	181	165	148
Related administration cost receipts		(12)	(23)	(49)	(68)	(38)	(32)	(25)	(25)	(25)
Total net administration		127	139	125	149	139	161	156	140	123
Analysis by activity:										
Core Treasury & GSS	6.17	120	130	116	137	128	147	140	124	106
OBR							2	2	2	2
OTS							-	-	-	-
DMO	6.22	7	9	9	12	11	12	14	14	15
APA										
Total net administration costs		127	139	125	149	139	161	156	140	123
Gross administration costs include:										
Staff costs		71	76	72	89	92				
Other		56	86	102	128	85				
Core Treasury and GSS includes:										
Consultancy		3.4	17.7	48.0	61.9	28.5				
Travel and subsistence		2.5	2.3	2.4	2.2	1.3				
DMO includes:										
Consultancy		0.34	0.23	0.07	0.19	0.41				
Travel and subsistence		0.03	0.06	0.06	0.05	0.03				
Gross administration		127	162	174	217	177	193	181	165	148

Commentary on Tables 6.B and 6.D

Core Treasury and Group Shared Services

2010-11: £134m, 2009-10: £145m, of which net administration costs 2010-11: £139m, 2009-10: £149m

6.17 The reduction in resource DEL outturn of £11 million between 2009-10 and 2010-11 is largely due to a reduction in administration costs. Core Treasury staff numbers decreased from 1,350 at the start of the year to 1,249 at the end, resulting in a decrease in staff costs of £3.1 million, and contributing to a decrease in expenditure on staff-related costs, such as training and travel, of £4.1 million. In comparison, Group staff costs increased in 2010-11 as this was the first full year of operation for the APA.

6.18 In addition to the reduction in overall staff numbers, the Treasury introduced a number of measures to focus on cost reduction, including the introduction of a stringent approval process for expenditure over £20k and initiatives focusing on maximising efficiency and value for money on operational spending in areas such as hospitality, training and travel costs.

Coinage

2010-11: £34m, 2009-10: £28m

6.19 Coinage expenditure comprises £14 million manufacturing costs funded through DEL (2009-10: £13 million) and £20 million metal costs funded through AME (2009-10: £15 million). The coinage contract between HM Treasury and the Royal Mint provides that stock production will be as per an agreed schedule with a predetermined stock buffer. Treasury policy is to meet coinage demand. Demand for coinage is extremely difficult to forecast which in 2010-11 resulted in an outturn lower than the £38 million forecasted, but higher than the prior year. Given the fluctuations in demand, the production schedule was varied by agreement between the Royal Mint and HM Treasury. Additional variances were caused by the significant fluctuations in global metal prices. For example, compared to 2009-10, simple average metal prices for copper and nickel fluctuated by 37 per cent and 42 per cent respectively.

Other functions

2010-11: £11m, 2009-10: £11m

6.20 Expenditure on the other function comprises £8 million (2009-10: £8 million) for the Civil List and £3 million (2009-10: £3 million) for Royal Household Pension Scheme. From 2011-12 onwards, expenditure on the Civil List is being reclassified as AME. The Civil List and Royal Household Pension Scheme are standing services of the Consolidated Fund and the expenditure is set at a fixed annual amount. Although expenditure on other functions is included in the Treasury's resource budget, it is not included in the Treasury's Resource Accounts but in the Consolidated Fund Account.[2]

Banking & Gilts registration services

2010-11: £11m, 2009-10: £12m

6.21 Banking and gilts registration costs comprise the fees paid to the Bank of England for management of the UK's foreign currency reserves, and fees for gilts registration services which are paid to Computershare. The lower level of expenditure in 2010-11 reflects the lower level of gilts sales in comparison with 2009-10.

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[2] Civil List expenditure recorded in the Consolidated Fund's Account is £9.5 million for 2010-11. This comprises a fixed annual amount of £7.9 million for the Civil List and parliamentary annuities of £1.6 million which are paid to other members of the Royal Family. Of the £9.5 million gross expenditure, £1.3m is reimbursed to the Exchequer by Her Majesty the Queen resulting in a Civil List net figure of £8.2 million (rounded to £8 million in table 2).

UK Debt Management Office (DMO)

2010-11: £15m, 2009-10: £16m

6.22 Resource DEL expenditure on the DMO represents the agency's net operating cost of £15 million (2009-10: £16 million). The £1 million reduction in net operating costs primarily relates to the DMO's trading and debt issuance activities, which include settlement and custodial charges, brokerage fees and the cost of acting as an agent for the National Loans Fund (NLF) in issuing government backed securities. The reduced net cost was principally due to the DMO's decreased level of trading activity over the course of the financial year.

6.23 In addition to its trading and debt issuance activities, the DMO recovers costs associated with various other activities it undertakes on behalf of others, including acting as an agent for the Department of Energy and Climate Change for auctions of allowances under the Emissions Trading System. Further details are available in the DMO's Annual Report and Accounts 2010-11 which incorporate the accounts of the Debt Management Account.[3]

Financial stability

2010-11: (£11,474m), 2009-10: (£22,376m)

6.24 Financial stability expenditure within resource AME relates to fair value movements in derivatives, release of financial stability provisions, and impairment of financial instruments. During 2010-11, the fair value of HM Treasury's derivatives increased by £12,387 million and financial stability provisions of £31 million were released, resulting in a net income position in the Resource Accounts. These movements were only partially offset by impairments of £942 million. Further details are provided in paragraphs 6.30 onwards, following table 6.E.

Equitable Life Payment Scheme

2010-11: £1,493m, 2009-10: £nil

6.25 As part of the October 2010 Spending Review, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out over the first three years of the Spending Review period. The outturn of £1,493 million represents a provision for payments over the life of the scheme, discounted based on the estimated payment profile.

Bank of England dividend

2010-11: £63m, 2009-10: £97m

6.26 HM Treasury is the sole shareholder in the Bank of England. The Bank of England Act 1946, as amended by the Bank of England Act 1998, requires the Bank to pay the Treasury, in lieu of dividend on the Bank's capital, a sum equal to 50 per cent of the Banking Department's post-tax profit, or such other sum as the Department and the Bank of England may agree. The overall effect is that the Bank and the Treasury will normally share the Banking Department's post-tax profits equally. The dividend is credited as income to the central Treasury budget but is then surrendered to the Consolidated Fund. The Department's investment in the Bank is valued in the Resource Accounts at the Bank's net asset value per its own accounts.

[3] www.dmo.gov.uk

6.27 The Bank of England's profit for 2010-11 attributable to the shareholder was £125 million (2009-10 £194 million) resulting in a dividend payable of £63 million (2009-10 £97 million). Details on the Bank of England's financial performance can be found in their annual accounts.[4]

Assistance to financial institutions

2010-11: (£2,313m), 2009-10: £40,653m

6.28 Assistance to financial institutions relates to the Treasury's capital investments in financial institutions and comprises new purchases of share capital and additions to loans balances, less repayments. During 2010-11, there were no further additions or repayments of shares relating to financial stability interventions. Additions to loans balances totalled £145 million. This mainly related to increases in FSCS and statutory debt required to fund the repayment of depositors in failed banks and building societies. This was offset by loan repayments totalling £2,459 million, the most significant of which was £1,377 million from Northern Rock (Asset Management). The remaining £1,082 million relates to recoveries received from administrators which have been used to reduce FSCS and statutory debt balances. Further details on HM Treasury's loans to financial institutions are included following table 6.E.

Capital employed

6.29 Table 6.E sets out the capital employed by Treasury Group. Capital employed has shown a significant increase since the first interventions to support financial institutions took place in 2008-09. The following section provides further background detail on financial stability interventions, cross referenced as appropriate to relevant notes in the 2010-11 accounts.

Table 6.E: Capital employed by the Treasury Group

£ millions	Outturn (Restated)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Assets and liabilities in the Statement of Financial Position at end of year:					
Assets					
Intangible assets	4	3	3	5	7
Property, plant and equipment	107	114	101	104	109
of which					
Land and buildings	*102*	*110*	*97*	*100*	*98*
Furniture & IT Equipment	*5*	*2*	*2*	*2*	*6*
Antiques		*2*	*2*	*2*	*2*
Assets under construction	-	-	-	-	*3*
Investments	1,889	21,622	72,819	124,516	116,405
Current assets	111	122	3,069	2,426	12,176
Liabilities					
Current liabilities	(125)	(147)	(2,792)	(1,843)	(1,896)
Non-current liabilities	(169)	(19,445)	(28,380)	(4,364)	(2,772)
Capital employed	1,817	2,269	44,820	120,844	123,920

[4] www.bankofengland.co.uk

Financial stability interventions

6.30 In recent years, the financial stability agenda has been dominated by the consequences of the global financial crisis that began in summer 2007. This crisis required various interventions from governments and finance ministries across the world to help bolster the financial system, increase lending and stimulate the world economy. The impact of these interventions on the Resource Accounts can be split between equity investments, derivatives, loans and receivables, and contingent liabilities.

Equity investments

2010-11: £60,925m, 2009-10: £65,326m

6.31 During the time of the global financial crisis, the previous Government intervened through a recapitalisation scheme under which HM Treasury acquired share capital in a number of key UK financial institutions, comprising: Royal Bank of Scotland (RBS), Lloyds TSB and HBOS (which merged into the current Lloyds Banking Group (LBG)). In addition, Northern Rock was transferred into Temporary Public Ownership in accordance with the Banking (Special Provisions) Act 2008. A number of these interventions are still ongoing and their impact on the Treasury's 2010-11 Resource Accounts is summarised below.

6.32 HM Treasury holds ordinary and B-shares in RBS and ordinary shares in LBG. Ordinary shares in these companies are publicly traded and HM Treasury's investment is valued at £53 billion based on their quoted share price at 31 March 2011 (including the B-shares based on their conversion rights). Where it appears that there has been a permanent reduction in value, as indicated by a prolonged or significant reduction in the share price from the original acquisition cost of each tranche of shares, the reduction is treated as an impairment and charged to the Statement of Comprehensive Net Expenditure (SCNE). Other fluctuations in the share price are recognised as fair value adjustments and are adjusted through the Available for Sale reserve.

6.33 In addition to the publicly traded shares of RBS and LBG, HM Treasury holds a single Dividend Access Share (DAS) in RBS. The DAS provides the Treasury with rights to a preferential dividend that must be paid if an ordinary dividend is paid. The RBS Board decides on whether or not an ordinary dividend is paid. For further details on the DAS valuation, see note 25.2.

6.34 During 2010-11, the Department recognised fair value reductions to RBS and LBG shares of £4 billion (2009-10: fair value gains of £8.6 billion) and a further impairment of £341 million to two tranches of LBG shares (2009-10: £452 million) as a result of the share price being significantly below the original acquisition cost. HM Treasury continues to be exposed to share price movements. For further details on the valuation of RBS and LBG investments, see note 15.1, and for a sensitivity analysis on the share prices, see note 25.5. For further details on the background to the RBS and LBG interventions, and developments in 2010-11, see notes 31 and 32.

6.35 Following the restructuring of Northern Rock into Northern Rock plc and Northern Rock (Asset Management) plc, the Treasury provided Northern Rock plc with £1.4 billion of capital support in the form of share capital. These shares are held based on their historical cost, in accordance with the Government Financial Reporting Manual. The historical cost has been adjusted following operating losses in 2010 to £1.2 billion. This is in line with Northern Rock's net asset value as reported in their December 2010 accounts. For further details on the accounting policy applied, see note 2.2 of the Resource Accounts.

6.36 UKFI has been tasked to develop and execute a strategy for returning Northern Rock plc to the private sector in line with its overarching objective to create and protect value for the taxpayer. UKFI and Northern Rock recently appointed Deutsche Bank as advisers to explore options for the disposal of Northern Rock plc. Following advice from UKFI and their advisers, the

Government has decided to pursue the sale option. This was announced by the Chancellor in his speech at Mansion House on 15 June 2011. This does not mean that other options to return Northern Rock to the private sector have been ruled out, but at this stage the Government believes that a sale process is most likely to generate the best value for the taxpayer and should be explored as a first option.

Derivatives

2010-11: £10,437m, 2009-10: £1,287m (liability)

6.37 HM Treasury holds two significant derivative financial instruments. These are the Asset Protection Scheme (APS) derivative and the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative.

6.38 The APS provides the participating institution, RBS, with 90 per cent cover for credit losses above a £60 billion threshold on a defined portfolio of assets in return for an annual fee payment. The APS derivative represents the overall asset or liability of the scheme based on estimates of future fees compared to potential modelled credit losses. For further details on the background to the intervention, see note 39.6.

6.39 The APS derivative is sensitive to a number of variables, most significantly credit spreads, changes to the portfolio of assets within the scheme (for example as a result of disposals), and fee payments made by RBS for ongoing participation. During 2010-11, the value of the APS derivative liability decreased from £1.2 billion to £0.1 billion as a result of cash movements of £0.7 billion relating to the fee paid being counteracted by fair value gains relating to the value of the insurance contract of £1.8 billion. The fair value gains of £1.8 billion were primarily driven by portfolio changes, for example as a result of disposals, re-assessment of specific assets and amortisation.

6.40 The fair value of the APS represents the statistical expectation, or weighted probability, of the difference between cash paid and cash received under different scenarios. For a sensitivity analysis of the APS derivative, see note 25.5.1 and for further details on the background to the intervention, see note 39.6.

6.41 The BEAPFF derivative represents the amount due to or from the Treasury in respect of gains or losses on the Asset Purchase Facility (APF). The purpose of the APF scheme is to buy high-quality assets financed by the issuance of central bank reserves, Treasury bills and the DMO's cash management operations. APF transactions are undertaken by the BEAPFF, a subsidiary of the Bank of England. For further details on the background to the intervention, see note 39.2.

6.42 The value of the BEAPFF derivative at the reporting date is an asset of £10.5 billion, corresponding to a fair value increase of £10.6 billion from the prior year. The value of the BEAPFF derivative is volatile and changes significantly as a result of movements in gilts' prices. Neither the interim mark-to-market position, nor its final value, would be a meaningful indicator for assessing the overall impact of the BEAPFF activities on public finances as a whole. For a sensitivity analysis of the BEAPFF derivative, see note 25.5.2.

6.43 Changes in the fair value of both the APS and BEAPFF derivatives are recognised in the SCNE and, for 2010-11, these fair value changes have had a significant effect on the Treasury's outturn position. The overall effect on the SCNE from the BEAPFF and APS derivatives is a gain of £12.4 billion. For further details on fair value movements, see note 16.

Loans and receivables

2010-11: £54,937m, 2009-10: £57,499m

6.44 Action was taken during the global financial crisis to protect UK depositors in UK and Icelandic banks and building societies. Working alongside the Financial Services Compensation Scheme (FSCS), HM Treasury guaranteed deposits in failed institutions and intervened to ensure that deposit holders were compensated quickly.

6.45 HM Treasury provided the FSCS with loans to make payments to depositors up to the FSCS compensation limit valid at the time. Following repayments by the FSCS of £548 million during 2010-11, the balance of the Treasury's loans to the FSCS at the reporting date totalled £18.8 billion. The loans are fully recoverable through a combination of administrator payments from the failed banks and industry levies, and consequently no impairment has been recognised in HM Treasury's 2010-11 Resource Accounts or in prior years. For further details on the FSCS, see note 39.3.

6.46 Top-up payments for deposits above the FSCS compensation limit have been met by the Department. Like the FSCS, HM Treasury has entered claims in the wind-up of the failed banks for the compensation payments made. The top-up payments are recorded as statutory debts on the Statement of Financial Position and the level of recoverability that can be achieved is dependent on the administration process. Therefore in 2010-11, as in prior years, the Treasury has recognised impairments due to the irrecoverability of loan principal, based on estimates from administrators, and due to the irrecoverability of interest. For further details on impairment charges, see notes 17 and 24.7. The total balance of statutory debt at the reporting date is £4 billion (2009-10: £4.4 billion).

6.47 In relation to the failed Icelandic bank Landsbanki (Icesave), HM Treasury intervened to ensure that depositors were compensated for the share of their deposits which should have been guaranteed by the Icelandic Depositors and Investors Guarantee Fund (DIGF), in addition to FSCS and statutory debt payments. The DIGF's share of deposit liability is £2.3 billion and the Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the DIGF's share of payments to depositors. A loan agreement was approved by the Icelandic Parliament but subsequently rejected in a referendum of the Icelandic people on 9 April 2011. The matter is now likely to be referred by the European Free Trade Association (EFTA) Surveillance Authority to the EFTA Court.

6.48 The Treasury considers that the loan and interest continue to be fully recoverable. However, as a loan agreement is not in place, there is uncertainty over the timing and final terms. It therefore does not meet income recognition criteria under accounting standards. An impairment of £319 million has been recognised against the DIGF loan to write-off interest from before the loan was novated from the Bank of England and to reflect the time value of money through not recognising interest income at this point. Once an agreement is reached with the Icelandic authorities for the repayment of the loan and interest, the impairment will be reversed. For further details on the accounting policy applied, see note 2.6 of the Resource Accounts, and for further details on Icesave, see note 36.

6.49 In addition to loans to compensate depositors, HM Treasury also provided a loan to Northern Rock (Asset Management) plc (NRAM) and a working capital facility to Bradford & Bingley plc (B&B). During 2010-11, NRAM made loan repayments of £1.4 billion, resulting in an outstanding loan balance of £21.6 billion at 31 March 2011. NRAM pays interest on the loan and has a business plan in place to achieve full repayment. B&B's working capital facility has remained unchanged at £8.6 billion during 2010-11. B&B pay interest and drawdown fees on the facility, and, like NRAM, the organisation's business plan reflects full repayment. Therefore no impairment has been recognised for either of these interventions. For further details on NRAM and B&B, see notes 29 and 30.

6.50 For further details on all loans and receivables balances, including movements during 2010-11, see note 17.

Contingent liabilities

6.51 HM Treasury's interventions have resulted in contingent liabilities where there is a possibility of future payouts under schemes. In a number of cases the Treasury receives fees for taking on financial risk, for further details see note 25.3. During 2010-11, the Department's exposure to contingent liabilities across financial stability interventions has significantly decreased. Whilst not all contingent liabilities are quantifiable, the most significant changes from the prior year are reductions in exposure for the Special Liquidity Scheme (SLS), Asset Protection Scheme (APS), Credit Guarantee Scheme (CGS), and for deposit guarantees at Northern Rock, NRAM and B&B. There has also been a reduction in the probability of future payouts across these schemes.

6.52 The SLS contingent liability has reduced from £165 billion to £71 billion as a result of reductions in the level of securities held under the scheme. Similarly, the CGS contingent liability has reduced from £125 billion to £115 billion in line with debt maturities within the scheme and the APS contingent liability has reduced from £154 billion to £110 billion in line with reductions in the size of the portfolio of covered assets due to maturities and disposals.

6.53 Contingent liabilities for deposit guarantees have reduced as some guarantee arrangements were terminated during 2010-11and other guarantees are reducing as fixed term deposits mature. At the reporting date, the contingent liability is estimated at £20.6 billion compared with £29.8 billion in the prior year.

6.54 For further details on the background to the CGS, SLS and APS interventions, see notes 39.1, 39.4 and 39.6 of the Resource Accounts, and for further details on deposit guarantees see notes 29 and 30. For details on all contingent liabilities at the reporting date, see note 27.

Section 2:

Resource Accounts

Resources Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000

Resource Accounts and Departmental Report presented to the House of Lords by Command of Her Majesty

7 Statement of Accounting Officer Responsibilities

7.1 Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.

7.2 The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, changes in taxpayer's equity, programme costs by Request for Resources and cashflows for the financial year.

7.3 In preparing the Resource Accounts, the Principal Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

7.4 HM Treasury has appointed me as Principal Accounting Officer of the Department with overall responsibility for preparing the Department's Resource Accounts and for transmitting them to the Comptroller and Auditor General.

7.5 Additional Accounting Officers has been appointed to be accountable for those parts of the Resource Accounts relating to the UK Debt Management Office and the Asset Protection Agency. The Additional Accounting Officers are responsible for use of resources and associated assets, liabilities and cash flows under their control. The Chief Executive of the UK Debt Management Office (Robert Stheeman) is the Accounting Officer for the UK Debt Management Office and the Chief Executive of the Asset Protection Agency (Stephen Wilke) is the Accounting Officer for the Asset Protection Agency. These appointments do not detract from my overall responsibility for HM Treasury's Resource Accounts.

7.6 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in Chapter 3 of Managing Public Money (MPM), published by the Treasury.

8 Statement on Internal Control

This statement:

(a) Scope of responsibility

8.1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Treasury Group policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

8.2 For the period covered by this report, immediate responsibility for the systems of internal control in the UK Debt Management Office (DMO) and Asset Protection Agency (APA) lay with their Chief Executives as Additional Accounting Officers. The role of Accounting Officer is defined by Managing Public Money and the division of responsibility between HM Treasury and the Accounting Officers of its other bodies is set out in a separate Memorandum. In their Accounting Officer capacities, the Chief Executives of the DMO and APA have provided me with separate assurances on the effectiveness of their systems of internal control upon which I place reliance when signing this statement.

8.3 The Office of Government Commerce (OGC) was subject to a machinery of government change in 2010 and transferred to the Cabinet Office as part of the newly created Efficiency and Reform Group (ERG). I am content that the OGC left the Treasury's care with a strong set of controls and processes in place.

8.4 During 2010-11, the Office for Budget Responsibility and the Office for Tax Simplification were established.

(b) The purpose of the system of internal control

8.5 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they occur, and to manage them efficiently, effectively and economically.

8.6 The system of internal control has been in place in the Treasury Group for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Changing control environment:

8.7 Over 2010-11, the risk environment in which the Treasury was operating was constantly evolving, reflecting the continuing uncertainty in the global economy and the changes to the political landscape during the year with a General Election in May 2010. The following issues in particular shaped much of the work of the Treasury, and consequently its approach to risk:

- **Global economic uncertainty:** Recovery from the synchronised global downturn remains uneven with 2010-11 seeing European sovereign debt challenges and global trade, growth and currency imbalances;
- **Domestic challenges:** Fiscal consolidation remains the main priority for the Treasury. The Budget and Spending Review will strengthen and realign the UK's public finances, essential for macroeconomic stability. The Growth Review published alongside the Budget reflects the Government's commitment to strong, sustainable and balanced growth;
- **Political events:** The General Election in May 2010 led to a change of administration, and a coalition government for the first time in decades. This has meant a change of priorities and ways of working across Whitehall; and
- **Reductions to the Treasury's budget:** The Treasury, like all of Whitehall, was subject to its own Spending Review settlement which saw a reduction in the Department's budget by 33 per cent during the life of the Parliament.

8.8 This statement sets out the annual assessment of the control framework in place which supported and underpinned risk management. The Resource Accounts provides a narrative of the main changes to HM Treasury's stewardship responsibilities through this period.

The risk and control framework:

8.9 This section provides a brief overview of the control framework in place at the Treasury during 2010-11. It also briefly highlights the changes or additions made to the control framework in response to the changing external risk environment outlined above.

(a) The Treasury control framework

8.10 As Principal Accounting Officer (PAO), I am responsible for the control framework of the Treasury Group. I received support and assurance on the management of the Group and the risks it faced in several ways, forming a framework based upon the principle that risks should be managed at the appropriate level through a set of delegated authorities and accountabilities:

- **Treasury Board and Committees:** The Treasury Board was reconstituted after the General Election and is now chaired by the Chancellor and attended by an even representation of Ministers, Officials and Non Executive Directors. It sets the strategic direction for the Department which is then delivered by the Executive Management Board which meets on a weekly basis. The Executive team also meet regularly with the Non Executives. The Audit Committee, strengthened in 2009 by the addition of five new Non Executive members with accounting, financial services and delivery skills, continued to provide clarity and assurance on the Department's balance sheet. The Treasury's governance arrangements have been further strengthened by the recent appointment of a Lead Non-Executive Director;
- **Arms Length Bodies (ALBs):** Each of the ALBs that make up the Treasury Group has a dedicated Chief Executive Officer. These CEOs act as Agency Accounting Officers and are directly responsible for their organisation. They are each answerable to the PAO. This year the Treasury Group expanded to include the newly formed Office for Budget Responsibility and Office for Tax Simplification. The Treasury has several sponsor teams who work closely with the ALBs and Treasury senior management sit on a number of the Agency Boards;
- **Business Units:** Over the course of 2010-11, the Treasury itself was divided into six discrete business units known as directorates. Each business unit was the responsibility of a member of the Executive Management Board. These individuals

were responsible for management of their directorates, their resources, delivery and risk management. Performance was linked to corporate objectives and reviewed by the PAO. In April 2011, the Treasury moved to a new Director-led Group structure. This allows the Directors to manage their resources with more flexibility to respond to changing priorities and risks, and frees the senior management team to take on the strategic role of managing the overall work programme, resourcing and risk management for the Department as a whole;

- Key corporate functions: There are nominated senior executives who are responsible for the key corporate functions of Strategy, Finance and Operations. All are members of the Executive Management Board and are collectively responsible to the Board for delivery of the Treasury's work programme. In addition, the Department has a Senior Information Asset Owner and Senior Information Owner and takes proactive steps to ensure the security of its data; and
- Performance reporting: This control framework formed a chain of assurance back to me as PAO. It was supported by targeted monthly reporting of key data on corporate metrics (key financial data and operational data including staffing) and strategic analysis every eight weeks on the principal Economic, Fiscal and Operational risks. In addition, since November the Treasury has reported externally on a monthly basis on performance against its Business Plan, demonstrating progress against those commitments in the Coalition document that were assigned to the Department. Owners are held to account for delivery of the clear outputs and milestones within the Plan.

8.11 Risk awareness is embedded in Treasury training courses where relevant. This includes risk management, investment appraisal and economic and financial appraisal techniques for assessing capital projects. Legal awareness workshops are also offered to staff.

(b) Changes made during 2010-11

8.12 The Treasury reviewed its governance framework during the year and made a number of reforms. This was to ensure the framework remained effective and fit for purpose in managing the demands placed upon the department by the changing external environment and stewardship responsibilities.

- Strategic Review: The Treasury's Spending Review settlement means that the Department needs to make savings of one-third through the life of the Parliament. A reduction on this scale needed to be managed sensibly and effectively and offered an opportunity to review what the Department does and how it works. As a result, during the year the Treasury undertook a fundamental review of its structure, work planning and resourcing, and is now in the process of implementing the recommendations of this review. This involves changes to the control framework to ensure that it remains strong and fits the Department's changing operating model;
- New Lead Non-Executive Director and refreshed governance arrangements: The Treasury's governance arrangements were reviewed during 2010 and changes made to strengthen the link between the Ministers, Non-Executives and Officials. The recent appointment of a Lead Non-Executive Director has further strengthened the Treasury's governance framework. Work will continue on the governance framework to continue to strengthen the feedback between risks, resourcing and delivery. Details of the Non-Executives and Board structure can be found in the Annual Report section of this report;
- Strategic priorities refreshed: 2010-11 saw a significant change to the Department's strategic priorities to reflect new priorities and evolving pressures. The priorities

agreed were: consolidating the public finances; promoting sustainable economic growth; reform to financial regulation; promoting stability in the Global economy; and managing its own Spending Review settlement through a stronger emphasis on effectiveness and efficiency. The Treasury's priorities have now been set out in a clearly defined and resourced internal programme of work for the next year which will further strengthen the link between resourcing and delivery;

- Risk framework strengthened: The risk framework was fundamentally reviewed and analysed during the year. Over 2010-11, the Executive Management Board met as a Risk Committee every eight weeks with a Non Executive Director and a member of the Audit Committee in attendance. They took evidence from the Economic, Fiscal and Operational Risk Groups which are chaired by members of the executive who are held to account by the Risk Committee; and
- Business units: The structure of the Department was fundamentally changed toward the end of the year, with larger Directorates giving way to small, more agile and flexible Director led groups from 1 April 2011. Under the new structure, Directors have responsibility for a particular area of work. They are allocated a budget and staff and are held to account for delivery of a clearly defined programme of work with greater flexibility to move resources to meet changing demands, priorities and risks. This in turn allows the Executive Management Board to hold the Directors to account, and also to spend more time on the Treasury's overall direction, strategic priorities, and resourcing and risk management and in leading the Department.

Control issues identified during 2010-11:

(a) Significant internal control weaknesses

8.13 No significant internal control weaknesses in the Treasury Group were identified in 2010-11.

(b) Internal control issues under review

8.14 Over 2010-11, Treasury identified a number of control issues it has kept under review. These are those areas where the Department may need to amend its control framework to reflect changing circumstances:

- COINS (Combined Online Information System): COINS collects financial data from across Government to support management of the public finances. The system continues to meet its objectives but to meet future demands, its reliability and performance needs to be improved. To that end, a programme to replace the system is well underway with appropriate senior management oversight. A contract for a new system was signed on 24 June with the aim that the new system will be live for June 2012. In the meantime, the functionality of COINS continues to be monitored and the management of the system remains a top priority;
- Financial risks: The Treasury's financial exposures to risks carried on its balance sheet are detailed in the Resource Accounts section of this report. Exposure to overspending against Parliamentary control totals was also keenly monitored during the year and will continue to be a significant priority during the Spending Review period;
- Insider trading risks: The expansion of Treasury's financial services responsibilities has increased the information available to staff or contractors which could be used for insider trading. All staff must act with propriety and respect as both civil

servants and custodians of privileged financial information that must be protected. The Treasury holds its staff accountable in ensuring compliance and demonstrably valuing and communicating the Department's responsibilities; and

- Managing resources: Treasury, along with many departments in Whitehall, faces a reduction in resources as a result of the Spending Review. The Department continues to proactively manage its staff retention and exit to ensure a proper balance of skills, knowledge and corporate memory.

Assurance in making this judgement:

8.15 As PAO, my review of the effectiveness of the system of internal control for 2010-11 was informed by assurances and feedback from executive managers across the Treasury Group through the system of internal accountability and escalation that is in place to support the scheme of delegation. This is further supported by independent assurances through the work of the Non-Executive Directors, internal and external audit and other bodies such as the Office of the Civil Service Commissioners. In addition, a number of Select and other parliamentary committees have cross-examined a number of witnesses from across the Treasury Group. Particular assurances have been provided by:

- The Chief Executives of the DMO, APA and OBR and Accounting Officer of the OTS;
- Treasury's Executive Management Board;
- The Group Finance Director;
- The Head of the Treasury Legal Advisors, who has advised on outstanding legal and regulatory issues affecting the SIC; and
- The Head of Internal Audit who has provided reports on the effectiveness of the risk management, control and governance processes for the Treasury Group to the Audit Committee throughout the period. The Treasury's Audit Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

8.16 Alongside these assurances, I have placed reliance upon the Head of Internal Audit's view that assurance could be given over the risk management, control and governance arrangements relevant to the accounts, and that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

8.17 As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Treasury's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

8.18 I have considered the evidence that supports this Statement and I am assured that the Treasury has a strong system of internal control that supports the Department's achievement of the policies, aims and objectives.

Sir Nicholas Macpherson
Permanent Secretary
8 July 2011

9 Remuneration Report

Remuneration Policy

9.1 For the Permanent Secretary and Second Permanent Secretary, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining members of HM Treasury Board and the Chief Executive of the DMO, remuneration is determined by HM Treasury's Pay Committee in accordance with the rules set out in the *Civil Service Management Code (Chapter 7.1, Annex A).*

9.2 The Review Body on Senior Salaries advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

9.3 The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

9.4 Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit and on the basis of fair and open competition, but also includes details of the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk. The Permanent Secretary and Second Permanent Secretary are appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service. Other senior managers, including the Chief Executive of the DMO and Non Executive Members of HM Treasury Board, are appointed by the Permanent Secretary.

9.5 Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to senior managers during the year.

9.6 Independent Non Executive members of the Treasury Board are recruited through fair and open competition and are appointed for an initial period of three years with an option to extend for a further agreed period. These appointments can be terminated with one month's notice period. There is no provision for compensation for early termination.

Salaries and Pension Entitlements of Treasury Ministers and Senior Management

9.7 The following sections provide details of the salaries and pension entitlements of the most senior civil servants as a result of their employment by the Treasury Group, and those of ministers who have a direct influence on managing or controlling the activities of the Treasury. These disclosures have been subject to external audit.

Table 9.A: Salaries and Pensions of Ministers

Name	2010-11 Salary and full year equivalent (FYE[1]) (£)	2010-11 Benefits in kind (nearest £100)	2009-10 Salary and full year equivalent (FYE) (£)	2009-10 Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/11 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/11 or end date (nearest £000)	CETV at 31/03/10 or start date (nearest £000)	Real increase in CETV (nearest £000)
Alistair Darling Chancellor of the Exchequer (to 11/05/10)	28,436 (FYE 78,356)	900	78,356	7,800	20 - 25	0 - 2.5	409	408	2
George Osborne Chancellor of the Exchequer (from 12/05/10)	61,056 (FYE 68,827)	-[2]	-	-	0 - 5	0 – 2.5	7	0	3
Yvette Cooper Chief Secretary to HM Treasury (from 24/01/08 to 05/06/09)	-	-	14,130 (FYE 78,356)	-	-	-	-	-	-
Liam Byrne Chief Secretary to HM Treasury (from 06/06/09 to 11/05/10)	28,436 (FYE 78,356)	-	64,012 (FYE 78,356)	-	5 – 10	0 - 2.5	39	38	0
David Laws Chief Secretary to HM Treasury (from 12/05/10 to 29/05/10)	3,330 (FYE 68,827)	-	-	-	0 – 5	0 – 2.5	1	0	0
Danny Alexander Chief Secretary to HM Treasury (from 30/05/10)	57,356 (FYE 68,827)	-	-	-	0 - 5	0 – 2.5	9	0	3

[1] FYE – Full Year Equivalent

[2] George Osborne did not occupy the official Chancellor's residence during 2010-11. There is therefore no taxable benefit payable in relation to his official accommodation

Table 9.B: Salaries and Pensions of Ministers continued

Name	2010-11		2009-10		Total accrued pension at age 65 at 31/03/11 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/11 or end date (nearest £000)	CETV at 31/03/10 or start date (nearest £000)	Real increase in CETV (nearest £000)
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)					
Stephen Timms Financial Secretary to HM Treasury (from 06/10/2008 to 11/05/10)	14,751 (FYE 40,646)	-	40,646	-	10 – 15	0 – 2.5	169	166	3
Mark Hoban Financial Secretary to HM Treasury (from 13/05/10)	29,187 (FYE 33,002)	-	-	-	0 - 5	0 – 2.5	7	0	4
Angela Eagle Exchequer Secretary to HM Treasury (from 30/06/07 to 08/06/09)	-	-	5,732 (FYE 30,851)	-	-	-	-	-	-
Kitty Ussher Exchequer Secretary to HM Treasury (from 09/06/09 to 17/6/09)	-	-	-	-	-	-	-	-	-
Sarah McCarthy-Fry Exchequer Secretary to HM Treasury (from 18/06/09 to 11/05/10)	11,196 (FYE 30,851)	-	24,781 (FYE 30,851)	-	0 – 5	0 – 2.5	17	16	1
David Gauke Exchequer Secretary to HM Treasury (from 14/05/10)	20,894 (FYE 23,697)	-	-	-	0 - 5	0 – 2.5	5	0	2

Salaries and Pensions of Ministers continued

Name	2010-11 Salary and full year equivalent (FYE) (£)	2010-11 Benefits in kind (nearest £100)	2009-10 Salary and full year equivalent (FYE) (£)	2009-10 Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/11 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/11 or end date (nearest £000)	CETV at 31/03/10 or start date (nearest £000)	Real increase in CETV (nearest £000)
Ian Pearson[3] Economic Secretary to HM Treasury (from 05/10/08 to 11/05/10)	11,196 (FYE 30,851)	-	30,851	-	5 – 10	0 - 2.5	95	90	1
Justine Greening Economic Secretary to HM Treasury (from 14/05/10)	20,894 (FYE 23,697)	-	-	-	0 - 5	0 – 2.5	5	0	2
Lord Myners[4] Financial Services Secretary to HM Treasury (from 05/10/08 to 11/05/10)	-	-	-	-	-	-	-	-	-
Lord Sassoon Commercial Secretary to HM Treasury (from 12/05/10)	-	-	-	-	-	-	-	-	-
Phil Woolas[5] Joint Secretary of State to HM Treasury and Secretary of State to the Home Office (from 05/10/08 to 11/05/10)	-	-	-	-	-	-	-	-	-

[3] Ian Pearson's time was shared equally between Treasury and The Department for Business, Enterprise and Regulatory Reform (BERR). However, his salary and pension arrangements were the responsibility of HM Treasury and are shown above, in full.

[4] For performing his duties as Financial Services Secretary to HM Treasury Lord Myners did not draw a salary and Lord Sassoon does not draw a salary as Commercial Secretary to HM Treasury.

[5] Phil Woolas' salary and pension arrangements remained the responsibility of Home Office and the relevant disclosures can be found in their resource accounts, accordingly.

Table 9.C: Salaries and Pensions of Senior Management

Name	2010-11 Salary range and full year equivalent (FYE) (£000)	2010-11 Benefits in kind (nearest £100)	2009-10 Salary range and full year equivalent (FYE) (£000)	2009-10 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/11 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/11 or end date (nearest £000)	CETV at 31/03/10 or start date (nearest £000)	Real increase in CETV (nearest £000)
Sir Nicholas Macpherson Permanent Secretary	175 – 180	-	175 – 180	2,100	55- 60 plus lump sum 170 – 175	0 - 2.5 plus lump sum 0 – 2.5	996	913	5
Tom Scholar Second Permanent Secretary (from 23/03/09)	150 – 155	-	165 – 170	-	30 - 35 plus lump sum 95 – 100	0 - 2.5 plus lump sum 0 - 2.5	383	346	6
Nigel Smith[6] Chief Executive OGC (to 15/06/10)	20 - 25 FYE (185 – 190)	-	185 - 190	-	NA	NA	NA	NA	NA
Robert Stheeman Chief Executive DMO	150 – 155	-	155 – 160	-	15 - 20	0 - 2.5	244	204	19
Stephan Wilcke[7] Chief Executive APA	145 - 150	-	50 - 55 (FYE 145 – 150)	-	NA	NA	NA	NA	NA
Andrew Hudson Managing Director (from 30/03/09)	130 – 135	-	130 – 135	-	60 - 65	0 - 2.5	936	864	0

[6] Nigel Smith has opted out of the civil service pension scheme arrangements and no employer contributions were made to an alternative scheme on his behalf.

[7] Stephan Wilcke was employed on a permanent contract from 28 September 2009 and has been the APA's Chief Executive since the APA's launch on 7 December 2009. He has opted to have employer pension contributions at 20 percent of pensionable pay paid into a private pension outside the civil service pension scheme. Total employer contributions for the period were £30,000. He also waived any bonus entitlement for 2010-11

Table 9.D: Salaries and Pensions of Senior Management continued

Name	2010-11 Salary range and full year equivalent (FYE) (£000)	2010-11 Benefits in kind (nearest £100)	2009-10 Salary range and full year equivalent (FYE) (£000)	2009-10 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/11 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/11 or end date (nearest £000)	CETV at 31/03/10 or start date (nearest £000)	Real increase in CETV (nearest £000)
Dave Ramsden Managing Director	125 – 130	-	125 – 130	-	30 - 35 plus lump sum 100 - 105	0 - 2.5 plus lump sum 0 – 2.5	489	444	4
Edward Troup Managing Director (from 25/01/10)	130 – 135	-	20 - 25 (FYE 130 – 135)	-	10 - 15	0 - 2.5	236	191	25
Michael Ellam Managing Director (from 01/09/09)	100 – 105	-	50 - 55 (FYE 100-105)	-	20 – 25 plus lump sum 65 - 70	0 – 2.5 plus lump sum 0 - 2.5	397	354	11
Jonathan Taylor[8] Managing Director (from 11/01/10)	155 – 160	-	35 - 40 (FYE 155 – 160)	-	80 -85	80 – 82.5	1,067	10	1,051
Louise Tulett Group Director of Finance and Procurement (to 22/10/10)	50 - 55 (FYE 90 – 95)	-	105 – 110	-	10 - 15 plus lump sum 35 - 40	0 – 2.5 plus lump sum 0 -2.5	194	181	8
Julian Kelly Group Director, Finance and Commercial from 10/01/11)	15 - 20 (FYE 80 – 85)	-	-	-	15 – 20 plus lump sum 20-25	0 – 2.5 plus lump sum 0 – 2.5	194	192	1

[8] During 2010-11, Jonathan Taylor opted to link previous service with his current scheme benefits

Table 9.E: Salaries and Pensions of Senior Management continued

Name	2010-11 Salary range and full year equivalent (FYE) (£000)	2010-11 Benefits in kind (nearest £100)	2009-10 Salary range and full year equivalent (FYE) (£000)	2009-10 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/11 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/11 or end date (nearest £000)	CETV at 31/03/10 or start date (nearest £000)	Real increase in CETV (nearest £000)
Emma Lindsell Corporate Services Director (from 04/01/10)	65 - 70 (FYE 80 – 85)	-	15 - 20 (FYE 80 – 85)	-	10 – 15 plus lump sum 40 - 45	2.5 – 5 plus lump sum 7.5 -10	136	103	24
Ray Shostak Head of Prime Minister's Delivery Unit and Performance Management (to 31/12/10)	125 - 130 (FYE 165 – 170)	-	170 – 175	-	60 - 65	0 -2.5	1,258	1,243	-2
Mark Neale Managing Director (to 31/12/09)	-	-	120 – 125	-	-	-	-	-	-
Stephen Pickford Managing Director (to 31/03/10)	-	-	125 – 130	-	-	-	-	-	-

CETV stands for Cash Equivalent Transfer Value, explained in paragraph 9.30 below. The factors used in the CETV calculation have been revised during this year, mainly to account for the change from the use of RPI to CPI to calculate future pensions increase. This means that the opening CETV value shown in this year's report will differ to the amount shown as the closing CETV value in last year's report.

The salary and pension details disclosed relate to a full financial year, unless the minister/senior manager concerned has not been in post for a full year, in which case the 31 March has been substituted by the start or end date, specified in the first column.

Table 9.F provides details of performance related pay paid to senior managers during these financial years. However, as performance pay is awarded in arrears, the amounts payable, for performances during the 2010-11 financial year are not yet known and will, therefore, be disclosed in the 2011-12 Resource Accounts.

Salary

9.8 'Salary' includes gross salary; performance pay or bonuses (as detailed below) paid during the year; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. Therefore, bonuses paid in 2010-11 related to performance in 2009-10. Sir Nicholas Macpherson and Tom Scholar waived any right to bonuses with respect to performance in 2009-10. Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are also shown.

9.9 The pay committees, covering those senior managers listed in the tables above and below, comprise either the Senior Salaries Review Body, or the Permanent Secretary, Second Permanent Secretary and senior outside member (usually a Non-Executive Director) or Managing Directors and a senior outside member (either a Non-Executive Director or a suitable senior person from another department), dependent on the grade of the manager whose pay is being reviewed.

Table 9.F: Performance related pay of Senior Management (these disclosures have been subject to audit)

Name	2010-11 Range (£000)	2009-10 Range (£000)
Sir Nicholas Macpherson	0 - 5	0 - 5
Tom Scholar	0 - 5	10 - 15
Nigel Smith	0 - 5	N/A
Robert Stheeman	10 - 15	10 - 15
Andrew Hudson	0 - 5	N/A
Mark Neale	0 - 5	0 - 5
Stephen Pickford	0 - 5	10 - 15
Dave Ramsden	10 – 15	10 - 15
Edward Troup	0 - 5	N/A
Louise Tulett	0 - 5	10 - 15
Emma Lindsell	0 - 5	N/A
Ray Shostak	0 - 5	0 - 5
Jonathan Taylor	0 - 5	N/A
Michael Ellam	0 - 5	N/A
Julian Kelly (appointed 10/01/11)	N/A	N/A

9.10 This presentation is based on payments made by the Department and thus recorded in these Resource Accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£65,738 from 1 April 2010) and various allowances to which they are entitled are borne centrally.

Benefits in Kind

9.11 The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument. The benefits in kind disclosed above for the former Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street. These are capped at 10 per cent of his salary.

9.12 Those, if any, for the Permanent Secretary relate to the private use of an allocated car in the circumstances permitted by the Civil Service Management Code. In addition, ministers and senior officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. HM Treasury has an agreement with HM Revenue & Customs to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts.

Ministerial Pensions

9.13 Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutorily based (made under Statutory Instrument SI 1993 No 3253, as amended).

9.14 Those ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF (details of which are not included in this report). The arrangements for ministers provide benefits on an 'average salary' basis, taking account of all service as a minister. MPs have the option of an accrual rate (pension build up rate) of 1/40th, 1/50th or 1/60th and ministers, in common with all other members of the PCPF, can opt for the lower the 1/50th or 1/60th accrual rate and the lower rate of employee contribution.

9.15 Benefits for ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Contribution rates were increased with effect from 1 April 2009. MPs now have the option of:

- an accrual rate (pension build-up rate) of 1/40th and a contribution rate of 11.9 per cent of salary; or
- an accrual rate of 1/50th and a contribution rate of 7.9 per cent; or
- an accrual rate of 1/60th and a contribution rate of 5.9 per cent.

9.16 There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 31.6 per cent of the ministerial salary. On entering Office, ministers in the present administration waived their legislatively entitled salary for their role and have been claiming a reduced salary as per the above table. Ministers pension contributions remain based on the legislatively entitled rate of salary with the department making up the shortfall in contributions between the claimed and entitled levels.

9.17 The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service Pensions

9.18 Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, and classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

9.19 Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic and benefits for service from October 2002 calculated as in premium.

9.20 In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

9.21 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

9.22 The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

9.23 Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

9.24 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

9.25 A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

9.26 For senior management pension entitlements from the Civil Service pension scheme, the pension figures shown relate to the benefits the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

9.27 Similarly, for ministers, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister.

9.28 CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

9.29 This reflects the increase in CETV effectively funded by the employer or Exchequer, in the case of Ministers. It does not include the increase in accrued pension due to inflation, contributions paid by the employee or Minister (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Civil Service and other compensation schemes – exit packages

9.30 From 2010-11, Government Departments are required to report the use of exit packages for all staff in their resource accounts. This is the first year the Treasury has reported on these costs for the group in this remuneration report.

9.31 The compulsory redundancies shown in the table below include eighteen former ministers and seven special advisors whose compensation payments are reported in Note 7.1 of these Resource Accounts.

Exit package cost band	Number of compulsory redundancies 2010-11 (2009-10)	Number of other departures 2010-11 (2009-10)	Total number of exit packages by cost band 2010-11 (2009-10)
<£10,000	14	0	14 (0)
£10,000 - £25,000	8	5 (1)	13 (1)
£25,001 - £50,000	5	10 (1)	15 (1)
£50,001 - £100,000	0 (1)	4 (1)	4 (2)
£100,001 -£150,000	0	3	3
£150,001 - £200,000	0	0	0 (1)
£200,001>	0	1	1
Total number of exit packages	27 (1)	23 (4)	50 (5)
Total Resource Cost (£'000)	384 (71)	1,455 (274)	1,839 (345)

9.32 Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Table 9.G: Fees of Non Executive Board Members and Independent Members of the Audit Committee

Name	2010-11 Fees range (£000)	2010-11 Benefits in kind (rounded to nearest £100)	2009-10 Fees range (£000)	2009-10 Benefits in kind (rounded to nearest £100)
Non Executive Board Members:				
Sir William Sargent (to 30/09/10)	0 – 5	-	5 – 10	-
Michael O'Higgins	5 - 10	-	10 – 15	-
Sir Callum McCarthy	5 - 10	-	5 - 10	-
Dame Deirdre Hutton	5 - 10	-	5 - 10	-
Baroness Hogg (from 01/01/11)	0 - 5	-	-	-
Independent Members of Audit Committee:				
Michael O'Higgins (Chair)	0 - 5	-	0 - 5	-
Mike Ashley	5 - 10	-	-	-
Zenna Atkins	5 - 10	-	5 - 10	-
Janet Baker	5 - 10	-	5 - 10	-
Bradley Fried	-	-	5 - 10	-
Avinash Persaud	5 - 10	-	-	-

9.33 In 2010-11 Baroness Hogg donated the fee for her role as Lead Non Executive Director to charity. Mike Ashley's fee of £5 – 10 thousand was paid to his employer (KPMG). Brad Fried claimed no fee for his membership of the Committee during 2010-11.

Sir Nicholas Macpherson
Permanent Secretary
8 July 2011

10 Certificate and Report of the Comptroller and Auditor General

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Treasury for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, Consolidated Statement of Comprehensive Net Expenditure, the Statement of Financial Position and Consolidated Statement of Financial Position, the Consolidated Statement of Cashflows, the Consolidated Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2011 and of its net cash requirement, total resources and net operating income, for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Chapter 6, Financial Data and Projections, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

Please also see my report on pages 89 to 103.

Amyas C E Morse
Comptroller and Auditor General
13 July 2011

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

The Report of the Comptroller and Auditor General to the House of Commons

HM Treasury Annual Report and Accounts 2010-11

Introduction

10.1 Since 2007, the Treasury has made a series of interventions to support the financial stability of UK banking. These interventions supported four broad aims: to protect depositors; maintain liquidity and capital for UK banks through the period of market closures; and to encourage banks to lend to creditworthy borrowers.

10.2 In line with international good practice, the Treasury and the National Audit Office have worked to ensure transparency of the scale and costs of the various Government interventions. I set out a summary of the support in my December 2009 report *Maintaining financial stability across the United Kingdom's banking system (HC 91 2009-10)*. I updated this in December 2010 with *Maintaining the financial stability of UK banks: update on the support schemes* (*HC 676 2010-11).*

10.3 This Report on HM Treasury's 2010-11 Resource Accounts sets out the scale and costs of the Government's financial interventions as at 31 March 2011, on the same basis of disclosure as my previous reports to Parliament (Figures 1 to 5 below). It shows how these numbers reconcile to the Treasury's Resource Accounts and highlights certain additional disclosures in the notes to the Resource Accounts on the financial stability interventions.

The size of the support

10.4 The total outstanding support explicitly pledged to the banks as at 31 March 2011 is £456.33 billion (Figure 1), down from £612.58 billion as at 31 March 2010, and from a peak of some £1.162 trillion. The total outstanding support is 31 per cent of Gross Domestic Product as at March 2011.

10.5 Of the total support, £123.93 billion was provided in the form of loans or share purchases, which required a transfer of cash from the Government to the banks (Figure 3). A further £332.40 billion relates to guarantees and other forms of contingent liability where the Government will only provide cash if certain events arise (Figure 2). These are set out in the Treasury's Resource Accounts at Note 27 on contingent liabilities. Some £109.70 billion is recognised in the Treasury's Statement of Financial Position, amounting to 89 per cent of the Treasury's net assets.

10.6 The scope of the accounts excludes any potential costs and benefits created by any perceptions of investors that the taxpayer will provide support to systemically important financial institutions in any future crisis.

Figure 1
Total support and fees

	Guarantee commitments (Figure 2) (£bn)	Cash outlay (Figure 3) (£bn)	Total support (£bn)
Total support – peak[1]	1,029.03	132.85	**1,161.88**
Total support 31 March 2010	486.30	126.28	**612.58**
Total support 31 March 2011	**332.40**	**123.93**	**456.33**

	Cumulative amounts to 31 March 2010 (£bn)	2010-11 (£bn)	Cumulative amounts to 31 March 2011 (£bn)
Total fees (Figures 4 and 5)	8.41	3.33	**11.74**
Estimated finance cost[2]	(6)	(5)	**(11)**

NOTES
1 See footnote 1 in Figure 2 and Figure 3.
2 Estimated to the nearest £1 billion because exact borrowing costs are not hypothecated to particular programmes. It is not therefore possible to give net fees less finance cost to three significant figures.

Source: National Audit Office analysis of HM Treasury's Resource Accounts

Changes to the size of the support

10.7 During 2010-11 the total outstanding support has reduced because:

a. £10 billion of debt guaranteed by the Credit Guarantee Scheme has matured;

b. the Royal Bank of Scotland assets covered by the Asset Protection Scheme have been reduced by £49.70 billion through run-off of the portfolio, disposals, early repayments and maturing loans, which has reduced the Treasury's share of the exposure to the assets by £43.81 billion;

c. the liquidity provided by the Special Liquidity Scheme has reduced by £91 billion due to contractual maturities and early exiting from the individual swaps by participants;

d. guaranteed liabilities in the wholly-owned banks have reduced by £9.10 billion mainly due to maturing liabilities; and

e. £2.46 billion of loan repayments have been received from banks and the Financial Services Compensation Scheme, offsetting an increase to the loans of £0.12 billion.

10.8 The Treasury has received a total of £11.74 billion in fees and interest since 2008 for providing the support and assuming the risks covered by the guarantees since 2008 (Figure 4 and Figure 5). This includes one-off payments of £3.68 billion, mainly in relation to the 2009 rights issues and for Lloyds exiting the Asset Protection Scheme. The Treasury received £3.33 billion in cash during 2010-11 representing interest on the loans and fees for the support schemes.

Figure 2
Contingent liabilities

	Peak support, including amounts pledged but not drawn down[1] (£bn)	Outstanding guarantee commitments as at 31 March 2010 (£bn)	Outstanding guarantee commitments as at 31 March 2011 (£bn)	Notes to Treasury Accounts
Sector-wide schemes				
Credit Guarantee Scheme	250.00	125.00	**115.00**	*27.2*
Special Liquidity Scheme[2]	200.00	162.00	**71.00**	*27.1*
Asset Backed Securities Scheme	50.00	–	**–**	
Recapitalisation fund	13.00	–	**–**	
Unused facilities for loans to support deposits[3]	0.31	0.55	**0.56**	*39.3*
Royal Bank of Scotland and Lloyds Banking Group				
Asset Protection Scheme[4]	456.57	153.81	**110.00**	*27.2*
Contingent capital in Royal Bank of Scotland	8.00	8.00	**8.00**	*27.1*
Northern Rock and Northern Rock (Asset Management)				
Guaranteed liabilities	24.00	23.00	**15.40**	*27.2*
Contingent capital[5]	3.40	1.60	**1.60**	*27.1*
Unused working capital facility	3.80	2.50	**2.50**	*29.5*
Bradford & Bingley				
Guaranteed liabilities (including pension scheme)	17.00	6.89	**5.39**	*27.1, 27.2*
Unused working capital facility	2.95	2.95	**2.95**	*30.1*
Total guarantees	**1,029.03**	**486.30**	**332.40**	

Figure 2
Contingent liabilities *continued*

NOTES

1 Shows maximum support pledged, including amounts that were not used. The peak values have been taken from previous Resource Accounts, supply estimates and NAO reports to Parliament. Each scheme and support facility was available at different times, so the total £1,029.03 billion guarantee peak support was not available at a single point in time.

The total peak support excludes any emergency support provided by the Bank of England or other authorities as part of their normal market operations. To avoid double counting, the £60 billion emergency support to HBOS and RBS provided in 2008-09 and underwritten by an £18 billion indemnity from the Treasury has also been excluded, as it was replaced by additional funding including the Credit Guarantee Scheme.

2 The Treasury's March 2010 Resource Accounts gave a figure of £165 billion for the Special Liquidity Scheme. This related to the February 2009 exposure which was the latest available figure when the Accounts were prepared. The revised exposure figure is from subsequent publications from the Bank of England.

3 These unused loan facilities are for potential loans to the insolvent firms (Bradford & Bingley, KSF, Heritable, London Scottish, Icesave and Dunfermline), the Financial Services Compensation Scheme (FSCS), the Icelandic Depositors' and Investors' Guarantee Fund (DIGF), plus indemnities to the Bank of England for direct loans and working capital facility provided to Dunfermline. To avoid double counting with the loans to support deposits in Figure 3, the peak figure is calculated as the maximum support pledged less the gross cash provided between 2008 and 2011. As at 31 March 2011, the unused loan facilities have increased as the loans have been repaid and the maximum facilities have been revised.

4 The peak figure for the Asset Protection Scheme includes expected usage of the scheme by Lloyds. The maximum value of assets actually placed in the scheme was £282 billion.

5 The peak contingent liability of £3.40 billion related to a potential further recapitalisation of Northern Rock. In the event, no cash was transferred and the maximum was revised downwards when the bank was split in 2010.

6 In addition there are the following unquantified contingent liabilities as set out in Note 27.1 to the Treasury's Resource Accounts:

- Indemnities for the directors of the wholly-owned banks, UK Financial Investments and UK Asset Resolution.
- Maintaining the capital in Bradford & Bingley.
- Compensation for former shareholders in Northern Rock, Bradford & Bingley and Dunfermline.

7 This table also excludes loans and commitments to other countries which are discussed in paragraphs 33 to 37 of this report.

Source: National Audit Office analysis of HM Treasury's Resource Accounts

The cost to the taxpayer

10.9 The Treasury, Bank of England and Asset Protection Agency continue to believe that the most likely scenario is that the taxpayer will not have to pay out significantly on its guarantees. Banks participating in the three largest support schemes continue to make progress towards an exit from the support schemes (Figure 6, Figure 7 and Figure 8).

10.10 The eventual direct cost or return to the taxpayer from the financial interventions is highly sensitive to the eventual proceeds from the disposal of the shareholdings in Royal Bank of Scotland and Lloyds Banking Group. As at 31 March 2011, the total fair value adjustment and impairment to the shares is £13.33 billion, which represents the cumulative fall in value of the taxpayer's portfolio. This excludes the dividend access share in the Royal Bank of Scotland (paragraph 25) that was purchased for 50 pence but had a fair value of £2.29 billion as at 31 March 2011.

10.11 In June 2011 the Chancellor announced that a sales process for Northern Rock plc would begin. The Treasury injected £1.4 billion into the bank when it was split out from the remaining mortgage book on 1 January 2010. The Treasury has written down the book value of its equity by £212 million, reducing the book value to £1.19 billion (Treasury Resource Accounts, Note 15.1), reflecting losses made by the bank during 2010 (Treasury Resource Accounts, Note 15.2.6).

Figure 3
Support provided in cash

	Gross capital injections and loans advanced[1] (cash) 2007-2011 (£bn)	Net capital injections and loans advanced[2] (cash) as at 31 March 2011 (£bn)	Fair value movements and impairment of shares, and amortisation and impairment of loans (£bn)	Value in Accounts as at 31 March 2011 (£bn)	Notes to Treasury Accounts
Royal Bank of Scotland ordinary and B shares	45.80	**45.80**	(8.83)	36.97	*15.1*
Royal Bank of Scotland dividend access share	0.00	**0.00**	2.29	2.29	*15.1*
Lloyds Banking Group shares	20.54	**20.54**	(4.50)	16.04	*15.1*
Northern Rock plc shares	1.40	**1.40**	(0.21)	1.19	*15.1*
Northern Rock (Asset Management) loan	27.44	**21.59**	–	21.59	*17.1*
Bradford & Bingley working capital facility	8.55	**8.55**	–	8.55	*17.1*
Other loans to support deposits	29.12	**26.05**	(1.34)	24.71	*17.1*
Total cash outlay	**132.85**	**123.93**	**(12.59)**	**111.34**	

	Net capital injections and loans advanced[2] (cash) as at 31 March 2010 (£bn)	Fair value movements and impairment of shares, and amortisation and impairment of loans (£bn)	Value in Accounts as at 31 March 2010 (£bn)
Royal Bank of Scotland ordinary and B shares	45.80	(5.92)	39.88
Royal Bank of Scotland dividend access share	0.00	2.48	2.48
Lloyds Banking Group shares	20.54	(3.21)	17.33
Northern Rock plc shares	1.40	–	1.40
Northern Rock (Asset Management) loan	22.97	–	22.97
Bradford & Bingley working capital facility	8.55	–	8.55
Other loans to support deposits	27.02	(1.10)	25.92
Total cash outlay	**126.28**	**(7.75)**	**118.53**

NOTES
1 The first column represents the loans gross of repayments, and the total cost of shares purchased. To avoid double counting, the preference shares in RBS and Lloyds are not included in the peak total as the proceeds on their redemption were immediately re-invested into share capital. Dividends and the premium on redemption of the preference shares are included in Figure 4.
2 Shows the loans net of repayments but before amortisation and impairments. Interest received is shown in Figure 5.

Source: National Audit Office analysis of HM Treasury's Resource Accounts

10.12 The Treasury has also impaired various loans made to support depositors in failed banks on the basis that the administrators for the failed institutions are uncertain that there will be available monies to pay the creditors in full. These impairments amount to £1.69 billion as at 31 March 2011. The Treasury has stated its intention to continue to pursue these loans in full.

10.13 Meanwhile, the Government bears a significant financing cost for the interventions, arising from the additional £124 billion Government borrowing needed to buy the shares and provide the loans. It is difficult to identify the exact financing cost as borrowing is not hypothecated to particular programmes. I estimate it to be in the range of £4 billion to £5 billion in 2010-11, to a cumulative total of £9 billion to £11 billion since January 2009.

10.14 To date, the financing cost has been offset by the income from fees and interest. However, this includes significant one-off items and the fees from the guarantees will reduce as the size of the guaranteed liabilities reduces. There may be future dividend income from the shares but Lloyds Banking Group and the Royal Bank of Scotland are prevented from paying a dividend until 2012, and any dividend after this depends on their performance. In future the Government is likely to bear a net financing cost until the shares are sold and loans repaid.

10.15 The financing cost is not represented in the Treasury's Resource Accounts because the costs of all Government borrowing are recorded separately in the National Loans Fund Accounts. Whilst government bodies previously recognised a notional cost of capital charge, based on their entire balance sheet, this has been removed in 2010-11 as explained in Note 3.2 to the Treasury's Resource Accounts.

Figure 4

Fees and income from the explicit guarantees

	Total cash received as at 31 March 2010 (£bn)	Income recognised in 2010-11 Accounts (£bn)	Accruals adjustments (£bn)	Total cash received as at 31 March 2011 (£bn)	Notes to Treasury Accounts
Sector-wide schemes					
Credit Guarantee Scheme fees	1.75	1.28	0.07	**3.10**	*25.3*
Special Liquidity Scheme fees[1]	0.17	0.09	0.01	**0.27**	
Royal Bank of Scotland					
Asset Protection Scheme fees	1.40	0.70	–	**2.10**	*16.2, 31.2*
Commitment fee for contingent capital	0.32	0.32	–	**0.64**	*25.3*
Lloyds Banking Group					
Asset Protection Scheme exit fee	2.50	–	–	**2.50**	
Northern Rock plc & Northern Rock (Asset Management)					
Fees for guaranteed liabilities	0.09	0.02	0.01	**0.12**	*29.3*
Bradford & Bingley					
Fees for guaranteed liabilities	0.26	0.03	0.08	**0.37**	*30.3*
Total guarantee fees	**6.49**	**2.44**	**0.17**	9.10	

NOTE

1 Special Liquidity Scheme fees are not shown in the Treasury's Resource Accounts as they are paid to the Debt Management Office, which then pays half to the National Loans Fund. The Debt Management Office's share is shown in the Debt Management Agency Accounts.

Source: National Audit Office analysis of HM Treasury's Resource Accounts, Debt Management Agency Accounts and National Loans Fund Accounts

Figure 5
Fees and interest from the shares and loans

	Total cash received as at 31 March 2010 (£bn)	Income recognised in 2010-11 Accounts (£bn)	Accruals adjustments (£bn)	Total cash received as at 31 March 2011 (£bn)	Notes to Treasury Accounts
Royal Bank of Scotland					
Underwriting fees for the 2009 rights issue	0.30	–	–	**0.30**	
Redemption of preference shares	0.27	–	–	**0.27**	
Lloyds Banking Group					
Underwriting and commitment fees for the 2009 rights issue	0.38	–	–	**0.38**	
Redemption of preference shares	0.23	–	–	**0.23**	
Northern Rock (Asset Management)					
Loan interest	0.41	0.17	–	**0.58**	*29.5*
Bradford & Bingley					
Working capital facility fees	0.19	0.17	–	**0.36**	*30.4.2*
Loans to support deposits					
Interest	0.14	0.33	0.05	**0.52**	*30.4.1, 33-36*
Total fees and income from the shares and loans	**1.92**	**0.67**	**0.05**	2.64	

Source: National Audit Office analysis of HM Treasury's Resource Accounts

Further disclosures in the accounts

10.16 Notes 29 to 39 of the Treasury's Resource Accounts set out the background to the financial interventions, including descriptions of each of the schemes and how individual institutions were supported.

10.17 Note 25 of the Treasury's Resource Accounts discusses some of the risks relating to the financial instruments. In addition to these risks, the eventual cost or return to the taxpayer is highly dependent on the price of the Royal Bank of Scotland and Lloyds Banking Group shares and the general performance of the mortgage books in the banks in receipt of the Treasury's loans.

Disclosure of the support schemes and guarantees

10.18 The Treasury, Bank of England and Asset Protection Agency continue to believe that the most likely scenario is that the taxpayer will not have to pay out significantly on its guarantees. The Credit Guarantee Scheme and the Asset Protection Scheme are therefore recognised in the Treasury's accounts, as a financial guarantee and a derivative respectively, at fair values substantially below the potential maximum payouts on the schemes. Nevertheless, Parliamentary reporting requires it to disclose the maximum potential losses to which the Exchequer could be exposed. This is set out in Note 27.2 of the Treasury's Resource Accounts, which includes further descriptions of the circumstances under which the Government would pay out on each of the support schemes and its other guarantees and indemnities provided to financial institutions.

10.19 **The Asset Protection Scheme** has been accounted for as a derivative similar to a synthetic Collateralised Debt Obligation because the Treasury believe that it transfers the credit risk, but not the ownership, of the covered assets from Royal Bank of Scotland to the Treasury (Treasury Resource Accounts, Note 2.3). The value shown in the accounts, a liability of £0.10 billion in Note 25.2 of Treasury's Accounts, is calculated using financial modelling techniques. This value represents the expected loss on the scheme, as computed by the model, after all fees charged (i.e. the average loss across the range of tested scenarios). The Treasury believes the most likely scenario is that there will be no payout on the scheme and that the fees will represent a positive return to the Exchequer. The March 2011 interim management statement from Royal Bank of Scotland shows a corresponding asset of £0.08 billion as at 31 March 2011.

10.20 **The Credit Guarantee Scheme** and **guarantees on the wholesale funding** for the wholly-owned banks have been accounted for as financial guarantees. The Treasury believes that the likelihood of the guarantees being called is remote, and that no payout will occur. This means that the size of the liability recognised is limited to the total fees expected to be received but not yet recognised in income. The discounted value of the fees gives a liability of £1.54 billion, of which £0.94 billion relates to the Credit Guarantee Scheme (Treasury Resource Accounts, Note 20.1.3).

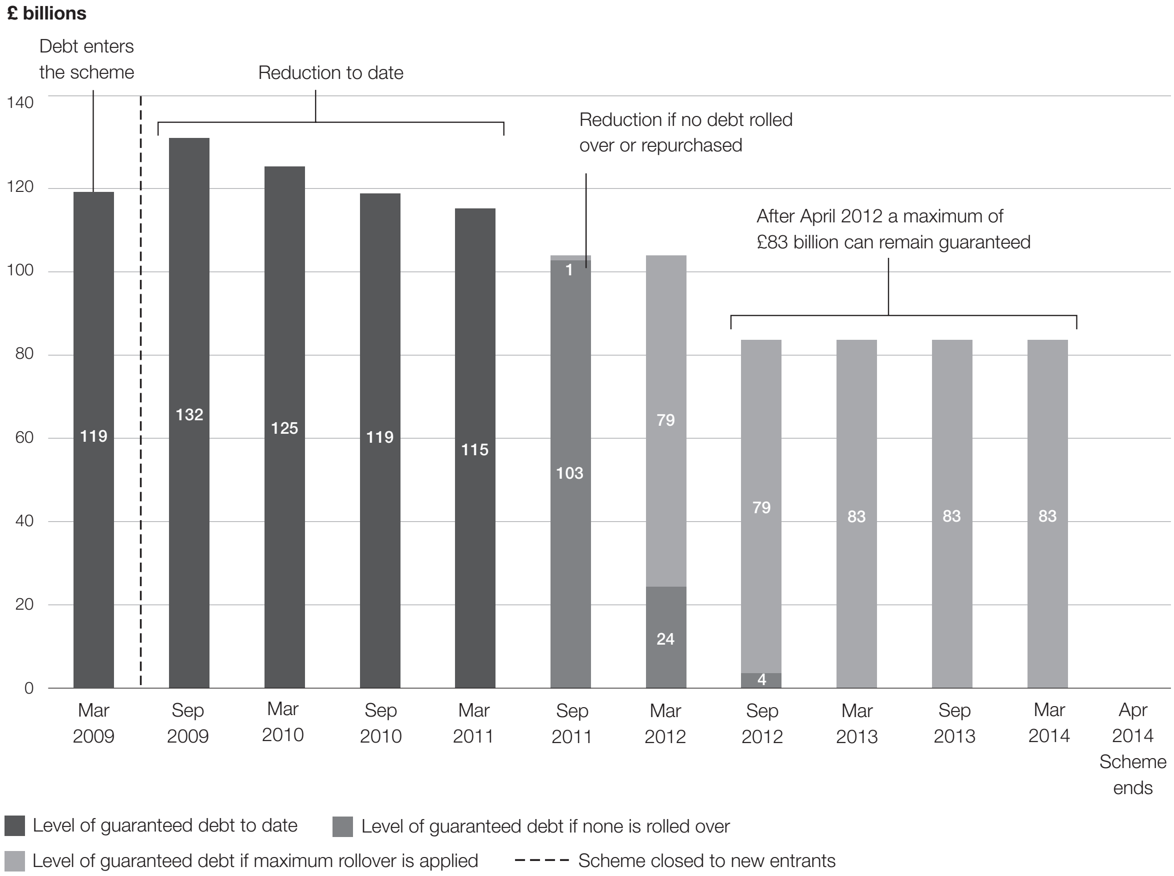
10.21 In June 2011, the Treasury changed the terms of the Credit Guarantee Scheme to allow banks to repurchase debt guaranteed under the scheme for a fee. This is described in Note 42 of the Treasury's Resource Accounts.

10.22 Because some of the fees for the Credit Guarantee Scheme are paid in foreign currencies, the Treasury has entered into forward contracts to transfer the foreign exchange risk to the Exchange Equalisation Accounts. This hedging is described in Note 25.2 (ii) of the Treasury's Resource Accounts.

10.23 **The Special Liquidity Scheme** is shown only as a contingent liability in Note 27.1 of the Treasury's Resource Accounts. This scheme is operated by the Bank of England and is accounted for in the Bank's Accounts. The Treasury has indemnified the Bank against loss on the scheme.

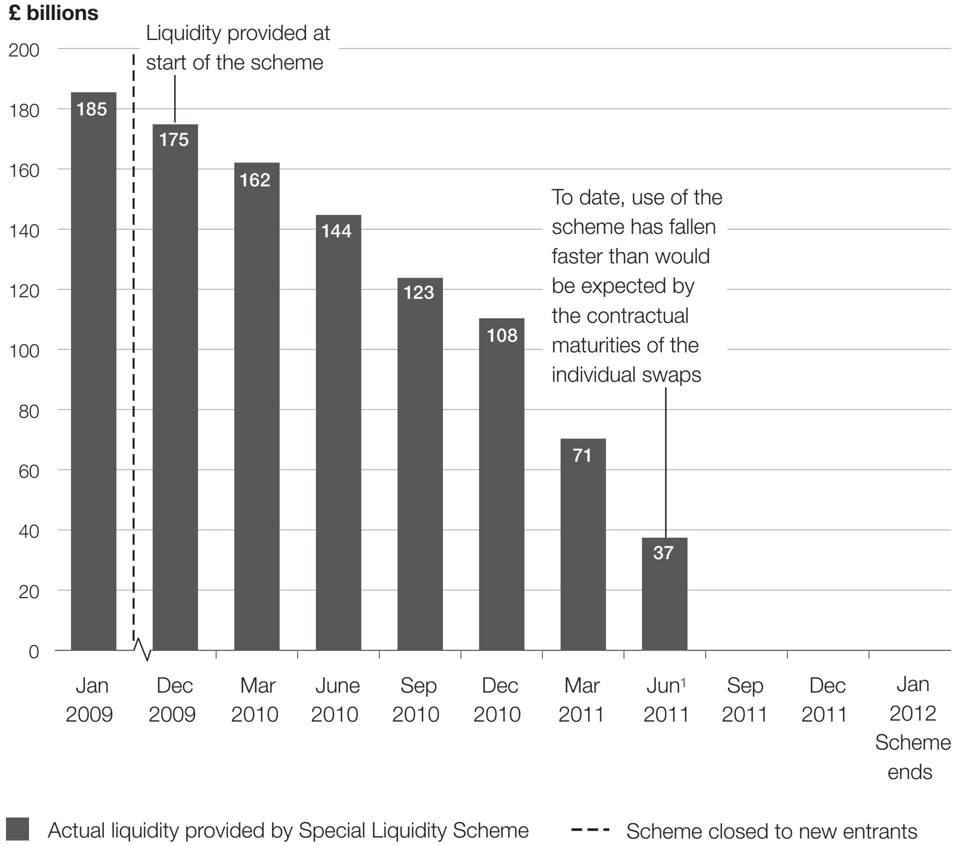
Figure 6

The Credit Guarantee Scheme



Source: HM Treasury

Figure 7
The Special Liquidity Scheme

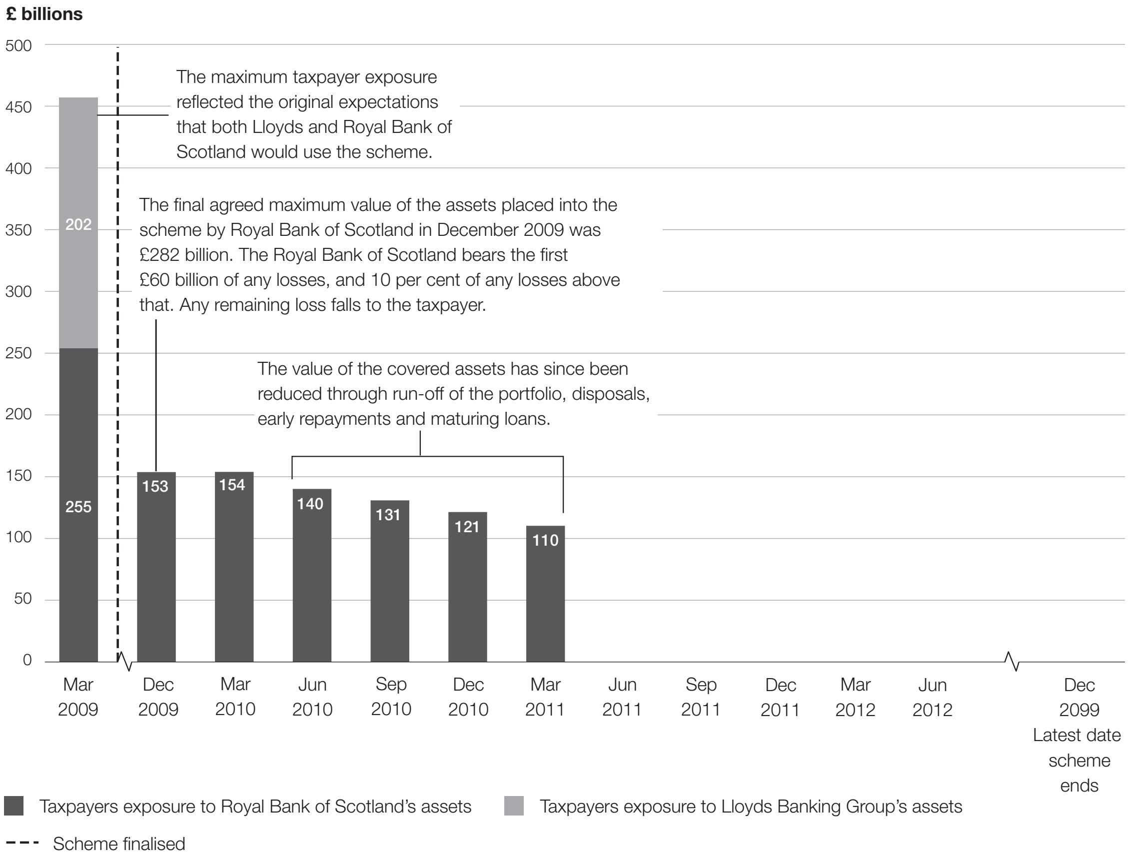


NOTE

1 Figure quoted for June 2011 liquidity is stated as at the beginning of June 2011. All other figures stated at the end of the month.

Source: HM Treasury, Bank of England Quarterly Bulletin

Figure 8
The Asset Protection Scheme



Source: HM Treasury and Royal Bank of Scotland's published Accounts and Interim Management Statements

Disclosure of the capital injected into banks

10.24 **The shares in Royal Bank of Scotland and Lloyds Banking Group** are set out in Note 15.1 of the Treasury's Resource Accounts. The fair value adjustments and impairments indicate that at the year-end the ordinary and B shares were trading at a loss of £13.33 billion compared to the amounts paid. The fair value adjustments have fluctuated over the year.

10.25 **The dividend access share** in Royal Bank of Scotland is a single share that can only be held by the Government. It gives the Treasury the right to receive a greater dividend than the other shareholders. The cost of the dividend access share was 50 pence but its value was £2.29 billion as at 31 March 2011 (Treasury's Resource Accounts, Note 15.1). The method used to value the dividend access share is described in Note 25.2 of Treasury's Resource Accounts. Royal Bank of Scotland is prevented from declaring a dividend until 2012 under the state aid agreement with the European Commission. The economic value of the dividend access share is highly dependent on the dividend strategy adopted by Royal Bank of Scotland's management after that date, and on the performance of the bank's share price.

10.26 **The wholly-owned banks** are recognised at cost less impairments. For Northern Rock (Asset Management) and Bradford & Bingley the cost was nil under the terms of the two transfer orders. The Treasury injected £1.4 billion equity into the new bank Northern Rock plc, whose planned return to private ownership is described in Note 42 of Treasury's Resource Accounts. This equity has been impaired by £212 million to reflect losses over the course of 2010 as shown in Note 15.1. Notes 15.2.6 and 15.2.7 show the summary balance sheets of the wholly-owned banks, which provide an indication of the value of the Government's equity in these companies. In aggregate, these banks have returned to profit over the course of 2010.

Disclosure of the loans

10.27 **The loans to support deposits** are shown in Note 17.1 of Treasury's Resource Accounts. Treasury provided funds to compensate former depositors in the insolvent firms (Bradford & Bingley, KSF, Heritable, London Scottish, Icesave and Dunfermline). The recovery of these amounts is being sought from two sources: the first £50,000 of each depositor's balance (the first £35,000 in the case of Bradford & Bingley) will be recovered from the Financial Services Compensation Scheme (FSCS), and the remainder (the statutory debt) directly from the firms (or their administrators). When further information on the size of individual deposits becomes available, amounts are transferred between these loan balances as shown in Note 17.1. This does not alter the total amount of support provided. However, interest is charged on the part recoverable from the FSCS but not on the statutory debt, so these transfers influence the total income that the Treasury will receive. The impairments represent uncertainty over their recoverability.

10.28 For **Icesave**, which was the UK branch of the Icelandic bank Landsbanki, the Treasury provided some £4.50 billion for UK depositors when Landsbanki went into administration. The Treasury is pursuing recovery from three sources:

- Note 2.6 to the Treasury's Resource Accounts highlights that the Treasury is seeking the recovery of the first £2.27 billion, relating to payments of up to €20,887 per depositor, from the Icelandic Depositors' and Investors' Guarantee Fund (DIGF), as DIGF has an obligation to make compensation payments for the first €20,887 of each depositor's loss. However, in an April 2011 referendum, the Icelandic people rejected a repayment agreement for DIGF. The European Free Trade Association (EFTA) Surveillance Authority has intervened with a likely referral to the EFTA Court. The Treasury currently expect to recover the entire £2.27 billion from DIGF on the basis that the administrators of Landsbanki will recover a significant proportion of this amount during the administration process. They also expect that the EFTA

Court ruling will ensure that any shortfall between £2.27 billion and any amounts recovered from the administrators will be met from the Icelandic authorities. Following relevant accounting rules, the £2.27 billion is shown at its net present value of £1.95 billion in Note 17.1 of the Treasury's Resource Accounts. The Treasury is also seeking to recover interest on this loan from the authorities but, because there is uncertainty over the timing and amount of the interest that will recovered, following accounting rules interest is not recognised in the Treasury's Resource Accounts.

- The Treasury is also seeking to recover £1.44 billion from the FSCS, representing the difference between the €20,887 and the then FSCS threshold of £50,000 for eligible depositors. In turn, the FSCS is seeking to recover this amount from the administrators of Landsbanki with any shortfall between what they do recover and the amount owing to the Treasury being made good through levying the UK financial services sector, as it intends to do for the other banks in administration.
- The Treasury also compensated depositors for amounts above the £50,000 threshold and is seeking to recover some £0.79 billion from the administrators of Landsbanki.

10.29 The subsidy on the loans is indicated by Note 25.2 (iv) of the Treasury's Resource Accounts. This note shows a difference of £6.88 billion between the £54.85 billion book value of the financial stability loans (at amortised cost) and the estimated £47.97 billion cost of the borrowing needed to fund these loans at current rates of interest (calculated as the present value of the loans discounted using gilt rates). This represents an estimate of the difference between the present value of the loans if held to term by the Government and the amount that the Government will pay to service the borrowing used to fund the loans. In addition to this £6.88 billion, amortisation of £348 million has been charged to reflect the provision of the statutory debt loans at a nil interest rate. Together, the total £7.23 billion is an indication of the future direct cost to the taxpayer of the subsidy arising from providing the loans at an interest rate below the Government's borrowing cost. In addition to this, there is a further subsidy because a commercial rate would be significantly higher than the Government's cost of borrowing.

10.30 £6.72 billion (98 per cent) of the £6.88 billion subsidy relates to Northern Rock (Asset Management) and Bradford & Bingley, which are wholly-owned by the Treasury. I used a similar method, but with different assumptions for the Government's cost of borrowing and using market forward rates, in my report *Stewardship of the wholly-owned banks: buy-back of subordinated debt* (HC 706 2010-11). This generated an estimate of the subsidy to Northern Rock (Asset Management) and Bradford & Bingley with a range of £1.83 billion to £6.7 billion.

10.31 The subsidy to Northern Rock (Asset Management) and Bradford & Bingley is designed to allow them to continue to meet their obligations as they fall due and thus facilitate their orderly wind-down. Any profits generated by these institutions as a result of the subsidy, after paying their other creditors and investors, will eventually be returned to the Exchequer. In the meantime, as the subsidy allows other creditors to be repaid, the Treasury is providing an increasing share of these institutions' funding and carrying an increasing share of their risk.

Disclosure of the fees and income from the interventions

10.32 The income from the financial interventions is disaggregated into separate elements and distributed between Notes 10.1, 10.2, 20.1.3 and 25.3 to the Treasury's Resource Accounts. Note 10 shows the income recognised in year on the Statement of Comprehensive Net Expenditure. Note 20.1.3 shows the liability recognised under the Credit Guarantee Scheme (paragraph 20 above). Note 25.3 explains that the fees on the Asset Protection Scheme are included in the calculation of the fair value of the derivative (paragraph 20 above).

Disclosure of other large interventions

10.33 The terms of the United Kingdom's £3.2 billion bilateral loan to Ireland are described in Note 38.1 to the Treasury's Resource Accounts. Payments of tranches of this loan are not due to commence until 2011-12.

10.34 The other large item on the Treasury's balance sheet is a derivative asset of £10.5 billion representing the Treasury's expected profit from the Bank of England's Asset Purchase Facility Fund (BEAPFF), also known as Quantitative Easing. As described in Note 25.2 of the Treasury's Resource Accounts, this is a Bank of England scheme, under which the Bank purchased £200 billion of assets, mainly Government gilts, which will eventually be sold back to the market. The Treasury has indemnified the Bank against losses on this scheme, and will receive any profit when the assets are sold. The asset in the Treasury's Resource Accounts represents the profit the Treasury would have received had the Bank sold the assets at market prices on 31 March 2011. In practice, it may be difficult to sell all the assets at once, without affecting the market price.

Other interventions not in these accounts

10.35 In addition to the interventions described above, there are other financial stability interventions that the Exchequer guarantees, which are not accounted for in the Treasury's Resource Accounts.

10.36 The International Monetary Fund (IMF) has lent to various countries including Greece, Ireland and Portugal. The UK is a major shareholder in the IMF and pays its share of the IMF's funding through the National Loans Fund (NLF) accounts. The IMF lends some of this funding back to the NLF, leaving the UK with an asset representing the cumulative net funding provided. This asset was valued at £3.3 billion as at 31 March 2011, of which a net £1.2 billion was paid during 2010-11. In addition to this funding, the UK provided the IMF with a bilateral loan facility of up to £9.8 billion, of which £1.1 billion had been drawn down as at 31 March 2011.

10.37 In 2010, EU Finance Ministers established the European Stabilisation Mechanism with the power to lend up to €60 billion, and Eurozone Finance Ministers established the Financial Stability Facility, initially of €250 billion, subsequently increased to €440 billion. The UK currently contributes to the Mechanism but not the Facility, although the UK Government has said that the UK will not contribute to the successor to the Mechanism after 2013. The Mechanism is secured on EU budget contributions, and a liability to the UK will only crystallise if loan recipients default. Had the Mechanism lent the full €60 billion, it is estimated that the UK's exposure would have been some €8.5 billion as at 31 March 2011. The actual lending by the Mechanism as at 31 March 2011 is €8.4 billion, all to Ireland, and as a result, the UK's actual exposure to the Mechanism as at 31 March 2011 is some £1 billion. Through the Mechanism, a further €14.1 billion is available to Ireland and some €26.0 billion to Portugal. The UK's commitments under the Mechanism are noted in the Consolidated Fund Accounts.

Other significant items in these accounts

10.38 The Treasury has made provision for future payments of £1.49 billion, to compensate policy holders in the Equitable Life insurance company for losses experienced due to the failure of regulation (Treasury's Resource Accounts, Note 21.3.1).

Amyas C E Morse
Comptroller and Auditor General
13 July 2011

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

11 Resource Accounts

Statement of Parliamentary Supply

for the year ended 31 March 2011

	Note	Estimate Gross expenditure £000	Estimate A-in-A £000	Estimate Net total £000	Outturn Gross expenditure £000	Outturn A-in-A £000	Outturn Net total £000	2010-11 Net Total Outturn compared with Estimate saving/(excess) £000	2009-10 Outturn Net total £000
Request for Resources 1	4.1	1,675,819	(15,378)	1,660,441	1,654,991	(11,404)	1,643,587	16,854	318,086
Request for Resources 2	4.1	38,000	-	38,000	33,463	-	33,463	4,537	28,053
Request for Resources 3	4.1	3,268,507	(25,637)	3,242,870	(11,445,707)	(25,536)	(11,471,243)	14,714,113	(22,371,072)
Total Resources	4.1	4,982,326	(41,015)	4,941,311	(9,757,253)	(36,940)	(9,794,193)	14,735,504	(22,024,933)
Non-Operating Cost A-in-A	6	-	(2,227)	(2,227)	-	(2,228)	(2,228)	1	(6,737,546)
Net Cash Requirement	6			**15,841,332**			**371,221**	**15,470,111**	**45,447,736**

Summary of Income Payable to the Consolidated Fund

In addition to Appropriations in Aid (A-in-A), the following income relates to HM Treasury and is payable to the Consolidated Fund:

	Note	Forecast 2010-11 Income £000	Forecast 2010-11 *Cash receipts £000*	Outturn 2010-11 Income £000	Outturn 2010-11 *Cash receipts £000*
Total	10.2	4,580,341	*4,551,341*	5,694,356	*5,845,349*

Key to Requests for Resources

Request for Resources 1: Maintain sound public finances and ensure high and sustainable growth, well being and prosperity for all.

Request for Resources 2: Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Request for Resources 3: Promoting a stable financial system and offering protection to ordinary savers, depositors, businesses and borrowers.

Explanations of variances between Estimate and outturn are given in note 4.3 and in the management commentary.

The notes on pages 112 to 198 form part of these accounts.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2011
Core Treasury and Group

	Note	2010-11 Core Treasury £000	2010-11 Group £000	2009-10 (Restated) Core Treasury £000	2009-10 (Restated) Group £000
Administration costs					
Staff costs	7.1	76,862	91,836	79,199	89,289
Other administration costs	8.1	70,861	85,416	117,837	126,753
Gross administration costs		**147,723**	**177,252**	**197,036**	**216,042**
Operating income	10.1	(19,710)	(37,924)	(60,642)	(68,202)
Net administration costs		**128,013**	**139,328**	**136,394**	**147,840**
Programme costs					
Request for Resources 1: Treasury Group					
Expenditure	9.1	1,501,784	1,506,316	5,642	11,379
Less: income	10.1	(176,893)	(178,003)	(142,102)	(143,557)
		1,324,891	**1,328,313**	**(136,460)**	**(132,178)**
Request for Resources 2: UK Coinage					
Expenditure	9.1	33,463	33,463	25,257	25,257
Less: income	10.1	(5,301)	(5,301)	(5,137)	(5,137)
		28,162	**28,162**	**20,120**	**20,120**
Request for Resources 3: Financial Stability					
Expenditure	9.1	913,066	913,066	(212,790)	(212,790)
Exceptional item –reversal of APS provision	9.1	-	-	(25,000,000)	(25,000,000)
APS and BEAPFF derivative fair value movements	16.1 & 16.2	(12,387,350)	(12,387,350)	(112,800)	(112,800)
Fair value movement on ordinary shares forward contract	9.1	-	-	(6,080)	(6,080)
Less: income	10.1	(2,350,304)	(2,350,304)	(5,308,504)	(5,308,504)
		(13,824,588)	**(13,824,588)**	**(30,640,174)**	**(30,640,174)**
Expenditure outside Supply process					
Non-Supply: Banking and gilts registration services	4.4 & 9.1	11,309	11,309	11,992	11,992
Net programme income		**(12,460,226)**	**(12,456,804)**	**(30,744,522)**	**(30,740,240)**
Net operating income	11.2	**(12,332,213)**	**(12,317,476)**	**(30,608,128)**	**(30,592,400)**
Other Comprehensive expenditure					
Net (gain)/loss on revaluation of property, plant and equipment	13.1	(47)	(47)	(519)	(519)
Net (gain)/loss on revaluation of investments	15.1	3,849,096	3,849,096	(11,349,304)	(11,349,304)
Net (gain)/loss on hedging reserve		(17,604)	(17,604)	(8,158)	(8,158)
		3,831,445	**3,831,445**	**(11,357,981)**	**(11,357,981)**
Net comprehensive income for the year		**(8,500,768)**	**(8,486,031)**	**(41,966,109)**	**(41,950,381)**

Statement of Financial Position

as at 31 March 2011
Core Treasury

	Note	2011	2010 (Restated)	2009 (Restated)
		£000	£000	£000
Non-current assets				
Property, plant and equipment	13.1	108,718	103,032	100,439
Intangible assets	14	2,830	1,776	2,266
Financial Assets:				
Available-for-sale	15.1	60,925,335	65,326,304	23,050,172
Derivative financial assets expiring after more than one year	16.1 & 16.3	4,613	167,806	18,594
Loans and receivables				
Loans and advances to financial institutions	17.1	54,937,278	57,498,732	47,059,020
Trade and other receivables due after more than one year	17.2.1	427,889	1,523,460	2,690,707
Total non-current assets		**116,406,663**	**124,621,110**	**72,921,198**
Current assets				
Inventories	18	9,864	6,778	5,883
Trade and other receivables due within one year	17.2.1	1,577,778	2,051,415	2,030,686
Derivative financial assets expiring within one year	16.1 & 16.3	10,565,392	363,809	1,027,213
Cash and cash equivalents	19.1	18,265	1,940	3,152
Total current assets		**12,171,299**	**2,423,942**	**3,066,934**
Total assets		**128,577,962**	**127,045,052**	**75,988,132**
Current liabilities				
Trade and other payables falling due within one year	20.1.1	(1,356,552)	(1,400,900)	(1,961,691)
Provisions due within one year	21.2	(504,473)	(40,271)	(379,889)
Derivative financial liabilities expiring within one year	16.2 & 16.3	(28,733)	(393,063)	(445,081)
Total current liabilities		**(1,889,758)**	**(1,834,234)**	**(2,786,661)**
Non-current assets plus/less net current assets/(liabilities)		**126,688,204**	**125,210,818**	**73,201,471**
Non-current liabilities				
Financial guarantees	20.1.3	(1,540,092)	(2,799,366)	(3,224,736)
Derivative financial liabilities expiring after more than one year	16.2 & 16.3	(104,151)	(1,426,001)	(21,721)
Other payables due after more than one year	20.1.1	(132,309)	(134,137)	(132,209)
Provisions due after more than one year	21.2	(993,466)	(946)	(25,001,253)
Total non-current liabilities		**(2,770,018)**	**(4,360,450)**	**(28,379,919)**
Assets less liabilities		**123,918,186**	**120,850,368**	**44,821,552**
Taxpayers' equity				
General fund		114,301,138	107,401,875	42,761,194
Available-for-sale reserve		9,595,925	13,445,021	2,065,563
Hedging reserve		19,045	1,441	(6,717)
Revaluation reserve		2,078	2,031	1,512
Total taxpayers' equity		**123,918,186**	**120,850,368**	**44,821,552**

Sir Nicholas Macpherson
Permanent Secretary
8 July 2011

Consolidated Statement of Financial Position

as at 31 March 2011
Group

	Note	2011	2010 (Restated)	2009 (Restated)
		£000	£000	£000
Non-current assets				
Property, plant and equipment	13.1	109,068	103,623	100,900
Intangible assets	14	6,932	5,332	2,968
Financial Assets:				
Available-for-sale	15.1	60,925,335	65,326,304	23,050,172
Derivative financial assets expiring after more than one year	16.1 & 16.3	4,613	167,806	18,594
Loans and receivables				
Loans and advances to financial institutions	17.1	54,937,278	57,498,732	47,059,020
Trade and other receivables due after more than one year	17.2.1	428,022	1,523,467	2,690,716
Total non-current assets		**116,411,248**	**124,625,264**	**72,922,370**
Current assets				
Inventories	18	9,864	6,778	5,883
Trade and other receivables due within one year	17.2.1	1,582,531	2,053,290	2,033,065
Derivative financial assets expiring within one year	16.1 & 16.3	10,565,392	363,809	1,027,213
Cash and cash equivalents	19.1	18,280	1,955	3,337
Total current assets		**12,176,067**	**2,425,832**	**3,069,498**
Total assets		**128,587,315**	**127,051,096**	**75,991,868**
Current liabilities				
Trade and other payables falling due within one year	20.1.1	(1,362,308)	(1,409,562)	(1,967,059)
Provisions due within one year	21.2	(504,530)	(40,343)	(379,964)
Derivative financial liabilities expiring within one year	16.2 & 16.3	(28,733)	(393,063)	(445,081)
Total current liabilities		**(1,895,571)**	**(1,842,968)**	**(2,792,104)**
Non-current assets plus/less net current assets/(liabilities)		**126,691,744**	**125,208,128**	**73,199,764**
Non-current liabilities				
Financial guarantees	20.1.3	(1,540,092)	(2,799,366)	(3,224,736)
Derivative financial liabilities expiring after more than one year	16.2 & 16.3	(104,151)	(1,426,001)	(21,721)
Other payables falling due after more than one year	20.1.1	(134,020)	(137,296)	(132,209)
Provisions due after more than one year	21.2	(993,522)	(1,059)	(25,001,426)
Total non-current liabilities		**(2,771,785)**	**(4,363,722)**	**(28,380,092)**
Assets less liabilities		**123,919,959**	**120,844,406**	**44,819,672**
Taxpayers' equity				
General fund		114,302,911	107,395,868	42,759,226
Available-for-sale reserve		9,595,925	13,445,021	2,065,563
Hedging reserve		19,045	1,441	(6,717)
Revaluation reserve		2,078	2,076	1,600
Total taxpayers' equity		**123,919,959**	**120,844,406**	**44,819,672**

Sir Nicholas Macpherson
Permanent Secretary
8 July 2011

Statement of Cash Flows

for the year ended 31 March 2011
Core Treasury and Group

	Note	2010-11 Core Treasury £000	2010-11 Group £000	2009-10 (Restated) Core Treasury £000	2009-10 (Restated) Group £000
Cash flows from operating activities					
Net operating cost/(income)		(12,332,213)	(12,317,476)	(30,608,128)	(30,592,400)
Adjustment for non-supply costs: Banking and gilts registration services	4.4 & 9.1	(11,309)	(11,309)	(11,992)	(11,992)
Adjustment for non-cash transactions	9.2	9,976,125	9,973,834	25,330,889	25,329,695
Changes in working capital other than cash	26	(298,796)	(292,129)	(955,003)	(961,831)
Inter departmental transfer		22,788	-	11,765	(20)
Movements in financial instruments passing through SCNE		168,701	168,701	170,118	170,118
Use of provisions	21.1	7,495	7,569	17,735	17,814
Of which non-cash		(6,246)	(6,246)	(17,165)	(17,165)
Net cash outflow/(inflow) from operating activities		**(2,473,455)**	**(2,477,056)**	**(6,061,781)**	**(6,065,781)**
Cash flows from investing activities					
Purchase of property, plant and equipment		8,792	8,924	1,391	1,995
Purchase of intangible assets		600	3,869	602	3,334
Purchase of financial assets		147,801	147,801	52,134,177	52,134,177
Cash received from derivative financial instruments	16.2	(700,000)	(700,000)	(1,400,000)	(1,400,000)
Disposal from sales of shares held in financial institutions	15.1	-	-	(9,097,131)	(9,097,131)
(Repayments) from financial institutions and other bodies	17.1	(2,459,353)	(2,459,353)	(1,912,246)	(1,912,246)
Adjustment for Machinery of Government change	6	131	131	-	-
Net cash outflow / (inflow) from investing		**(3,002,029)**	**(2,998,628)**	**39,726,793**	**39,730,129**
Cash flows from financing activities					
From the Consolidated Fund (Supply): current year		(387,413)	(387,413)	(45,419,314)	(45,419,314)
From the Consolidated Fund (Supply): prior year		(106)	(106)	(5,513)	(5,513)
Capital element of payments in respect of on balance sheet PFI contracts		1,557	1,557	1,447	1,447
Net financing		**(385,962)**	**(385,962)**	**(45,423,380)**	**(45,423,380)**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**5,861,446**	**5,861,646**	**11,758,368**	**11,759,032**
Payments of amounts due to the Consolidated Fund		(5,845,121)	(5,845,321)	(11,759,580)	(11,760,414)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	19.1	**16,325**	**16,325**	**(1,212)**	**(1,382)**
Cash and cash equivalents at the beginning of the period	19.1	**1,940**	**1,955**	**3,152**	**3,337**
Cash and cash equivalents at the end of the period	19.1	**18,265**	**18,280**	**1,940**	**1,955**

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011
Core Treasury

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Total Reserves
	£000	£000	£000	£000	£000
Balance at 1 April 2010 (Restated)	**107,401,875**	**13,445,021**	**1,441**	**2,031**	**120,850,368**
Net Parliamentary Funding – drawn down	387,518	-	-	-	**387,518**
Consolidated Fund payable for cash unspent	(16,191)	-	-	-	**(16,191)**
Consolidated Fund receivable for cash not drawn down	(106)	-	-	-	**(106)**
Financial Guarantee CFER adjustment	(98,940)	-	-	-	**(98,940)**
CFERs payable to the Consolidated Fund	(5,693,977)	-	-	-	**(5,693,977)**
Comprehensive (expenditure)/income for the year	12,332,213	(3,849,096)	17,604	47	**8,500,768**
Receipt of donated assets	3	-	-	-	**3**
Non-cash charges - auditor's remuneration	371	-	-	-	**371**
Non-Supply: Banking and gilts registration services	11,309	-	-	-	**11,309**
Inter departmental transfers	(22,788)	-	-	-	**(22,788)**
Other General Fund	(149)	-	-	-	**(149)**
Balance at 31 March 2011	**114,301,138**	**9,595,925**	**19,045**	**2,078**	**123,918,186**

Group

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Total Reserves
	£000	£000	£000	£000	£000
Balance at 1 April 2010 (Restated)	**107,395,868**	**13,445,021**	**1,441**	**2,076**	**120,844,406**
Net Parliamentary Funding – drawn down	387,518	-	-	-	**387,518**
Consolidated Fund payable for cash unspent	(16,191)	-	-	-	**(16,191)**
Consolidated Fund receivable for cash not drawn down	(106)	-	-	-	**(106)**
Financial Guarantee adjustment (IAS 39)	(98,940)	-	-	-	**(98,940)**
CFERs payable to the Consolidated Fund	(5,694,356)	-	-	-	**(5,694,356)**
Comprehensive (expenditure)/income for the year	12,317,476	(3,849,096)	17,604	47	**8,486,031**
Receipt of donated assets	3	-	-	-	**3**
Non-cash charges - auditor's remuneration	434	-	-	-	**434**
Non-Supply: Banking and gilts registration services	11,309	-	-	-	**11,309**
Transfers between reserves	45	-	-	(45)	**-**
Other General Fund	(149)	-	-	-	**(149)**
Balance at 31 March 2011	**114,302,911**	**9,595,925**	**19,045**	**2,078**	**123,919,959**

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010
Core Treasury

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2009	**42,762,218**	**2,065,563**	**(6,717)**	**1,512**	**44,822,576**
Machinery of Government transfer (note 3)	(1,024)	-	-	-	**(1,024)**
Cost of capital removal					
In net operating (cost)/income for the year	935,900	-	-	-	**935,900**
In non-cash charges – cost of capital	(935,900)	-	-	-	**(935,900)**
Balance at 1 April 2009 (Restated)	**42,761,194**	**2,065,563**	**(6,717)**	**1,512**	**44,821,552**
Net Parliamentary Funding - drawn down	45,424,827	-	-	-	**45,424,827**
Consolidated Fund payable for cash unspent	106	-	-	-	**106**
Consolidated Fund receivable for cash not drawn down	(5,513)	-	-	-	**(5,513)**
Prepayment of CFER's to Consolidated Fund	(240,000)	-	-	-	**(240,000)**
CFERs payable to the Consolidated Fund	(11,147,364)	-	-	-	**(11,147,364)**
Comprehensive (expenditure)/income for the year	30,608,128	11,349,304	8,158	519	**41,966,109**
Release of reserves to the statement of comprehensive net expenditure	-	30,154	-	-	**30,154**
Non-cash charges - auditor's remuneration	270	-	-	-	**270**
Banking and gilts registration services	11,992	-	-	-	**11,992**
Inter departmental transfers	(11,765)	-	-	-	**(11,765)**
Balance at 31 March 2010 (Restated)	**107,401,875**	**13,445,021**	**1,441**	**2,031**	**120,850,368**

Group

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2009	**42,746,333**	**2,065,604**	**(6,717)**	**1,559**	**44,806,779**
Reclassification of reserves	-	(41)	-	41	-
Machinery of Government transfer (note 3)	12,893	-	-	-	**12,893**
Cost of capital removal					
In net operating (cost)/income for the year	935,891	-	-	-	**935,891**
In non-cash charges – cost of capital	(935,891)	-	-	-	**(935,891)**
Balance at 1 April 2009 (Restated)	**42,759,226**	**2,065,563**	**(6,717)**	**1,600**	**44,819,672**
Net Parliamentary Funding - drawn down	45,424,827	-	-	-	**45,424,827**
Consolidated Fund payable for cash unspent	106	-	-	-	**106**
Consolidated Fund receivable for cash not drawn down	(5,513)	-	-	-	**(5,513)**
Prepayment of CFER's to Consolidated Fund	(240,000)	-	-	-	**(240,000)**
CFERs payable to the Consolidated Fund	(11,147,563)	-	-	-	**(11,147,563)**
Comprehensive (expenditure)/income for the year	30,592,400	11,349,304	8,158	519	**41,950,381**
Release of reserves to the statement of comprehensive net expenditure	-	30,154	-	-	**30,154**
Non-cash charges - auditor's remuneration	330	-	-	-	**330**
Banking and gilts registration services	11,992	-	-	-	**11,992**
Transfers between reserves	43	-	-	(43)	-
Inter departmental transfers	20	-	-	-	**20**
Balance at 31 March 2010 (Restated)	**107,395,868**	**13,445,021**	**1,441**	**2,076**	**120,844,406**

Notes to the Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM).[1] The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HM Treasury for the purpose of giving a true and fair view has been selected. The particular policies adopted by HM Treasury are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM requires HM Treasury to prepare a Statement of Parliamentary Supply, plus supporting notes, and a Statement of Comprehensive Net Expenditure (SCNE). The Statement of Parliamentary Supply shows outturn against estimate in terms of the net resource requirement and the net cash requirement. The SCNE shows HM Treasury's income and expenditure. Also included in the notes to the accounts is a summary of income and expenditure in compliance with IFRS 8 Operating Segments. This supersedes the previous requirement to present operating costs by Departmental Strategic Objectives.

HM Treasury has been issued a special accounts direction allowing it to account on a fair value basis for its interests in public bodies outside the departmental boundary where there is observable market data. The accounts direction also allows HM Treasury's investment in the Bank of England and Partnership UK Limited to be valued at net asset value. This overrides the requirement in the FReM to report interest in public bodies outside the departmental boundary at historical cost.

IFRSs in issue but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2010, that have an effective date of application of 1 April 2010, or earlier.

Amendment to IAS 24 Related Party Disclosure (effective from 1 January 2011) and amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (effective from 1 January 2011) have both been adopted by the EU but are not applicable to these financial statements and would have no effect on existing disclosures.

In addition, IFRS 9 Financial Instruments (effective from 1 January 2013) has not been adopted by the EU but will be applicable if it is adopted at a later date. IFRS 9 is being introduced to replace IAS 39 Financial Instruments: Recognition and Measurement. The available-for-sale and held-to-maturity categories currently allowed under IAS 39 are not included in IFRS 9. If adopted, this change will be applicable to these financial statements as HM Treasury holds equity available-for-sale investments (see note 15). All equity investments within the scope of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognised in profit or loss, except for those equity investments for which HM Treasury has elected to report value changes in other comprehensive income. HM Treasury may obtain an accounts direction to continue to measure the investments in Bank of England and PUK as HM Treasury's share of net assets per published accounts and to continue to carry other public bodies at historical cost less impairment. In these situations, IFRS 9 would not be applied in full.

[1] www.hm-treasury.gov.uk/frem_index.htm

1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified to account for the revaluation of land and buildings and certain financial instruments to fair value, as determined by the relevant accounting standards and the special accounts direction issued to HM Treasury.

1.2 Basis of consolidation

The departmental bodies are consolidated based on the boundary as defined by the FReM. The departmental boundary is different from the concept of a group under generally accepted accounting practice as it is based on in-year budgetary control and not on strategic control. Entities are only consolidated into the Treasury Group if they are supply-financed agencies, or non-agency parts of the department accounted for through the supply process, and if HM Treasury exercises in-year budgetary and spending control over the entity. Consequently, the consolidation excludes banks in Temporary Public Ownership and other public bodies outside of the supply process. Instead, HM Treasury recognises investments in these other entities.

In accordance with the FReM, HM Treasury has designated the following bodies as being inside the departmental boundary for this financial year and these have been consolidated in accordance with IAS 27 Consolidated and Separate Financial Statements:

- Core department (core Treasury) which comprises the non-agency parts of HM Treasury. This includes Infrastructure UK (IUK), Infrastructure Finance Unit Limited (IFUL), Office for Budget Responsibility (OBR) and Office of Tax Simplification (OTS)
- UK Debt Management Office (DMO)
- Asset Protection Agency (APA)

APA, IFUL and the DMO also produce and publish their own accounts.

The following entities are not consolidated as they fall outside of the departmental boundary. Extracts from their accounts providing a summary of their financial performance and financial position are included in note 15.2 where available.

- Bank of England
- Partnership UK plc
- UK Financial Investments Limited
- United Kingdom Asset Resolution Limited
- Royal Mint Trading Fund (and its subsidiary company)
- Bradford and Bingley plc
- Lloyds Banking Group plc
- Northern Rock (Asset Management) plc
- Northern Rock plc
- Royal Bank of Scotland Group plc

Following the announcement for Machinery of Government change, the Office of Government Commerce (OGC) has been transferred out of HM Treasury's resource accounts and is consolidated to the Cabinet Office and the Department of Business, Innovation and Skills. In accordance with the FReM, the OGC was transferred at carrying value with effect from the beginning of the year during which the transfer occurred (i.e. from 1 April 2010). Comparatives have been restated accordingly.

HM Treasury has a number of stewardship functions in relation to management of the Government's debt and foreign currency reserves. As HM Treasury has no ownership responsibility for the assets and liabilities that it is managing in carrying out this duty, these assets and liabilities do not appear in these accounts. They are, however, fully disclosed in the following accounts:

- The National Loans Fund
- The Consolidated Fund
- The Debt Management Account
- The Exchange Equalisation Account
- The Contingencies Fund

1.3 Property, plant and equipment and intangible non-current assets

Property, plant and equipment and intangible non-current assets are initially recognised at cost. The threshold for capitalising non-current assets is £5,000 except for antiques where no threshold is set.

Land and buildings are subsequently measured at fair value, as interpreted by the FReM, on the basis of professional valuations. A full valuation is carried out every five years and an interim desk valuation at year three. The last full valuation was carried out by Andrew Holdsworth BSc (Hons) MRICS MAPM at the Valuation Office Agency (VOA) in March 2010 and an interim desk valuation will be carried out in March 2013 by the VOA.

Antiques are subsequently recognised at Fair value. A full valuation is carried out every 5 years. Mike Neill, Director at Bonhams (UK), performed the last valuation on 9 April 2010.

Gains arising on revaluation are taken to the Revaluation Reserve. Losses on revaluation are debited to the Revaluation Reserve to the extent that gains have been recorded previously, and otherwise to the SCNE.

Assets under construction are carried at accumulated cost. Depreciation does not commence until the asset is completed and brought into service.

Other non-current assets are carried at historical cost less accumulated depreciation. This is a suitable proxy for fair value and is allowable per the FReM for those assets with short useful lives or low values. This includes assets held as fixtures and fittings, IT equipment and intangible non-current assets.

Components of an asset are separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset. Assets with a gross book value over £0.5 million are reviewed to identify whether they comprise of significant components with different useful lives.

Where a component is replaced or restored, the carrying amount of the old component is derecognised and the new component added.

1.4 Depreciation

The charge for depreciation is calculated to write down the cost or valuation of property, plant and equipment to their estimated residual values by equal instalments over their estimated useful lives, which are as follows:

Freehold and long leasehold buildings	40 to 50 years
Furniture, fixtures and fittings	Lesser of 5 to 10 years or outstanding lease term
Office and other non-IT equipment	3 to 5 years
Leasehold improvements	Over the lease term
Computer and telecom hardware, software and licences	3 to 10 years
Other plant and machinery	5 to 15 years

An exception to the above estimated useful lives is the Asset Protection Agency's assets. These are depreciated over three years which is in line with the estimated life of the Agency.

1.5 Impairment of non-current assets

Impairments are permanent diminutions in the service potential of non-current assets. All assets are assessed annually for indications of impairment. An impairment loss is recognised in the SCNE to the extent that it cannot be offset against the Revaluation Reserve. Any reversal of an impairment charge is recognised in the SCNE to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised in the SCNE. The remaining amount is recognised in the Revaluation Reserve.

1.6 Development expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the 2010-11 FReM, which has been adapted from IAS 38 Intangible Assets to take account of the considerations relevant for not-for-profit entities. Externally generated software is recorded under Assets Under Construction whilst in development and then reclassified as Intangible Assets when it is brought into use.

1.7 Inventory

Inventory is held at the lower of cost and net realisable value (NRV). The method of valuation is based on a first in, first out rule (FIFO). Inventory cost is considered to be production cost, based on direct materials, labour and production overheads.

1.8 Revenue recognition and operating income

Operating income relates directly to the operating activities of HM Treasury. It includes recharges at full cost for: services provided; costs recoverable from other bodies; fees from financial stability interventions; and investment income. It includes budgeted and non-budgeted income arising from the activities of HM Treasury, some of which is used to offset operational costs ("appropriated-in-aid") and some of which is payable to the Consolidated Fund ("not appropriated-in-aid").

Interest is calculated using the effective interest rate method on monetary assets classified as loans and receivables and is recognised in the SCNE. In addition, dividends on available-for-sale equity instruments are recognised in the SCNE when HM Treasury's right to receive payment is established. All income is accounted in line with IAS 18 Revenue Recognition.

1.9 Administration and programme expenditure

The SCNE is analysed between administration and programme costs. The classification of expenditure and income as administration or as programme follows the definition of costs covered by administration budgets set out in Consolidated Budgeting Guidance 2010-11. Net administration costs reflect the costs of running HM Treasury, these exclude costs associated with service delivery. Programme costs reflect non-administration costs, including disbursements by HM Treasury in support of financial stability interventions (notes 29 -39).

1.10 Capital charge

In 2010-11 the requirement to include a charge to reflect the cost of capital has been removed from the FReM. The effect of this change in accounting policy has been summarised in note 3.2.

1.11 Foreign exchange

Transactions denominated in foreign currencies are translated into sterling using rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March or on the settlement of such assets and liabilities. Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange are recognised in the SCNE, except when deferred in equity through the use of qualifying cash flow hedges.

1.12 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in note 7.2, cover the majority of past and present employees. The defined benefit scheme within the PCSPS is unfunded and is contributory. HM Treasury recognises the expected cost of future pension liabilities in a systematic and rationale basis over the period during which it benefits from employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme.

In respect of the defined contribution scheme, HM Treasury recognises the contributions payable as an expense in the year in which it is incurred.

1.13 Early departure costs

HM Treasury is required to meet any additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. HM Treasury provides for the costs when the early retirement is agreed and binding, effectively charging the full cost at the time of the decision and holding this in a provision. The provision is discounted using the pension's discount rate (as per the Public Expenditure System (PES) guidance (2010) 17) 2.9 per cent (2009-10 1.8 per cent).

1.14 Private Finance Initiative (PFI) transactions

In accounting for PPP arrangements, including PFI contracts under IFRS, HM Treasury follows the guidance provided in the FReM, which is based on the principles used in International Financial Reporting Interpretations Committee (IFRIC 12) – "Service Concession Arrangements". For contractual arrangements to receive goods or services from another party, HM Treasury assesses the contract to see whether it is in substance a service concession arrangement in accordance with IFRIC 12 as adapted and interpreted in the FReM, and if not, whether it is an arrangement containing a lease under IFRIC 4 – "Determining Whether an Arrangement Contains a Lease".

The principles of IFRIC 12 are followed when the private sector operator is obliged to provide the service related to the infrastructure, but significant residual interest in the infrastructure is controlled by HM Treasury at the end of the term of the arrangement.

Assets acquired through PFI are valued at market value, consistent with the requirements of FReM. The associated payable for the asset is paid off during the life of the PFI contract through attribution of part of the unitary payments. The balances of the unitary payments are recorded as other administrative costs, analysed between interest and service charges. Where the service charge includes an annual indexation adjustment, this is charged to the SCNE as it is incurred.

1.15 Leases

Leases are classified as either finance or operating leases in accordance with IAS 17 Leases. The distinction depends on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee. Leases in which a significant proportion of the risks and rewards of ownership are transferred to the lessor are classified as finance leases, other leases are classified as operating leases. HM Treasury has not entered into any finance lease arrangements. Operating leases are charged to the SCNE on a straight-line basis over the term of the lease.

1.16 Value Added Tax

Many activities of HM Treasury are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.17 Provisions, contingent liabilities and contingent assets

A provision is recognised when the following three criteria are met, in line with the requirements in IAS 37 Provisions, Contingent Liabilities and Contingent Assets:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits 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 present obligation at the reporting date.

The discount rate applied to general provisions is 2.2 per cent (with the exception of early retirement provision which is discounted at 2.9 per cent). The year on year changes to the value of the provision as a result of unwinding the discount rate are charged to the SCNE.

In accordance with IAS 1 Presentation of Financial Statements, provisions are separately disclosed as current and non-current.

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

1.18 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

1.18.1 Categories of financial instruments

HM Treasury's financial instruments have been classified into the following three categories, which are determined at initial recognition:

- derivatives at fair value through SCNE;
- loans and receivables held at amortised cost; and
- available-for-sale financial assets.

(a) Derivatives at fair value through SCNE

Financial intervention contracts that have the following characteristics are accounted for as derivative financial instruments in accordance with IAS 39 Financial Instruments Recognition and Measurement:

- its value changes in response to the change in an underlying variable (e.g. interest rates, equity share prices, exchange rates etc.);
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. Amortised cost is calculated as the present value of the expected cash flows over the remaining life of the loan or receivable, discounted at the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

For loans on which interest is received and full recovery is anticipated, the calculation of amortised cost equals the outstanding principal.

For loans which are interest free, future cash flows are discounted at the Treasury discount rate of 3.5 per cent, in accordance with the FReM. The result is that on initial recognition an impairment is recognised for the irrecoverability of future interest.

(c) Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are either designated in this category or cannot be classified in any other category. These assets are intended to be held for an indefinite period of time and may be sold in response to policy decisions or changes in interest rates, exchange rates or equity prices.

The investments in available-for-sale assets have been disclosed on a tranche by tranche basis where different lots of the same security have been purchased at different price levels. The gain or loss on these securities will be accounted for on a first in, first out (FIFO) basis when they are eventually disposed of.

1.18.2 Initial measurement of financial instruments

Derivatives and available-for-sale financial assets are recognised initially at fair value. At initial recognition, the best evidence of fair value in an arm’s length transaction is cash received or paid, unless there is evidence to the contrary.

Derivatives are measured at fair value on the date a derivative contract is entered into. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. All transaction costs are expensed in the SCNE.

The fair value of available-for-sale financial assets also includes any directly attributable transaction costs.

Loans provided by HM Treasury predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. Therefore comparison with market terms and market prices was not possible in determining fair value and, consequently, these loans were recognised initially at amortised cost as determined by the FReM.

1.18.3 Subsequent measurement and fair valuation of financial instruments

Derivatives are subsequently measured at fair value. Fair values are obtained from quoted market prices, or using valuation techniques including discounted cash flow models and option pricing models.

The gain or loss on subsequent measurement is taken to the SCNE except where the derivative is a designated hedging instrument.

Loans and receivables are carried at amortised cost less any impairment recognised. Statutory debts, which are interest free loans, are amortised using the Treasury discount rate of 3.5 per cent and the cash flows are assessed using administrators' estimates as to both the amount and timing of recoveries.

Available-for-sale financial assets (other than public bodies) are subsequently carried at fair value. Fair value is determined using valuation techniques with the help of valuation experts in instances where no observable market data exists. Further description of the valuation models and techniques is provided in note 25.2.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale reserve, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the available-for-sale reserve is recognised in the SCNE.

In accordance with the FReM, public bodies that are held as available-for-sale financial assets are carried at historical cost less any impairment recognised. For these purposes, public bodies include Royal Mint, Northern Rock plc, Northern Rock Asset Management plc, Bradford & Bingley plc, UK Financial Investments Limited and UK Asset Resolution.

The investment in Bank of England is measured as HM Treasury's share of net assets. This is in line with the special accounts direction. Gains and losses arising on subsequent measurement are recognised directly in the available-for-sale reserve.

The investment in PUK is measured as HM Treasury's share of net assets per PUK's published accounts. This is in line with the special accounts direction. Gains and losses arising on subsequent measurement are recognised directly in the available-for-sale reserve. Treasury assessed the level of impairment following the announcement to close down PUK during 2011 and any permanent reductions in fair value are recognised in the SCNE, in accordance with the accounting policy in note 1.18.4 below.

1.18.4 Impairment of financial assets

(a) Assets carried at amortised cost

HM Treasury assesses at each reporting date whether there is objective evidence that a financial asset is impaired. An asset is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') where that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that HM Treasury uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions; and
- deterioration in the value of collateral.

The amount of loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate. The carrying amount of the asset is reduced in the Statement of Financial Position and the loss is recognised in the SCNE. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the counterparty's credit rating), the previously recognised impairment loss is reversed.

(b) Assets classified as available-for-sale

HM Treasury assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether an asset is impaired. This assessment is performed on a tranche by tranche basis where multiple lots of the same security have been purchased at different price levels. For investments in public bodies, an impairment review is carried out for those bodies which HM Treasury intends to dispose of at future point. Indicators of impairment for these bodies include net cash outflows or operating losses, a reduction in net assets, and other factors influencing recoverable amount.

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the SCNE – is removed from equity and recognised in the SCNE. Impairment losses recognised in the SCNE are not subsequently reversed until the related financial asset is de-recognised.

1.18.5 Trade date

Regular way purchase and sales of financial assets are recognised on trade date – the date that HM Treasury commits itself to purchase or sell an asset. As defined in IAS 39 Financial Instruments: Recognition and Measurement, a regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

1.18.6 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where HM Treasury has transferred substantially all risks and rewards of ownership.

Financial liabilities are de-recognised when they are extinguished. That is, when the obligation is discharged, cancelled or expires.

1.19 Derivative financial instruments and hedging activities

The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to.

In order to qualify for hedge accounting, HM Treasury is required to document in advance the relationship between the item being hedged and the hedging instrument. HM Treasury is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis (80-125 per cent effective). The effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

HM Treasury currently only has cash flow hedges, where the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the SCNE.

Amounts accumulated in equity are recycled to the SCNE in the periods when the hedged item affects the SCNE.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled to the SCNE.

1.20 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified receivable fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee liabilities and associated receivables are initially recognised in the financial statements at fair value on the date the guarantee was given. The maximum period over which the receivables and the associated liabilities have been recognised is over the length of these guarantees or in case a policy decision has been made to withdraw the guarantee earlier, up to the published end date of the guarantee. All guarantee arrangements will be re-assessed at every subsequent reporting date and estimates for the assets and liabilities relating to the guarantee will be adjusted if necessary.

The fair value of financial guarantee liabilities are estimated as the fair value of the guarantee fee income where appropriate, assuming the fee has been set at a commercial market rate.

Subsequent to initial recognition, HM Treasury's liabilities under such guarantees are measured at the higher of:

- the initial measurement, less amortised fee income recognised in the SCNE as the service is provided; and
- the best estimate of the probable expenditure required to settle any financial obligation arising at the reporting date, in line with the definitions of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Any increase in the liability relating to guarantees is taken to the SCNE.

1.21 Loan commitments

Provisions for loan commitments are recognised in the SCNE where the Treasury is committed to make a loan which would be considered to be impaired or otherwise only when a loan agreement becomes onerous.

1.22 Employee benefits

HM Treasury has provided for the cost of accumulating compensated absences. This is accounted for when an employee renders services that increase their entitlement to future compensated absences. It is calculated based on pay and Employers' National Insurance Contributions.

2. Critical accounting estimates and judgements

2.1 Impairment losses on loans and advances

HM Treasury's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.18.4. The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the reporting date.

All loans are individually assessed for impairment. HM Treasury considers whether objective evidence indicates that one or more events, occurring after the loan or advance was made, have an effect on the estimated future cash flows. This objective evidence includes estimates from administrators on the level and timings of repayments, (for example, reports from the administrators of KSF, Heritable, Icesave, LSB, Dunfermline), negotiations with banks or other governments (DIGF) and business plans provided by banks under public ownership (Northern Rock, Bradford & Bingley).

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 42 to 100 per cent. As an indicator of the sensitivity within this estimate, the current impairment charge of £26 million on statutory debt would increase by approximately £197 million, if the recoverability of the loans were 10 percentage points lower than those estimated by the administrators as at 31 March 2011.

Impairments are also recognised to reflect interest free loans. HM Treasury has provided Bradford & Bingley, Icesave, Heritable, Kaupthing Singer & Friedlander (KSF), London Scottish and Dunfermline with interest free loans to fund repayment of retail deposits above £50,000 (above £35,000 for Bradford & Bingley). The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's effective interest rate. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses. These assumptions are reviewed at each reporting date.

A summary of current year impairment charges are included in note 25.7 and the carrying loan balances are detailed in note 17.1.

2.2 Impairment of available-for-sale financial assets

HM Treasury's accounting policy for losses arising on available-for-sale financial assets is described in note 1.18.4. In determining whether an impairment loss has been incurred in respect of available-for-sale equity assets, HM Treasury assesses whether there has been a significant decline in its fair value below its original cost price, or if the fair value has been below cost price, tranche-for-tranche, for a sustained period of time. The result of performing the assessment on individual tranches is that only those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

As at 31 March 2011, available-for-sale assets totalled £60.9 billion (2009-10: £65.3 billion). This is net of 2010-11 impairment losses charged to the SCNE of £0.6 billion (2009-10: £0.5 billion). A summary of current year impairment charges is included in note 25.7 and the fair values of available-for-sale assets are detailed in note 15. Details of sensitivity analysis undertaken are included in note 25.5.

The FReM requires investments in public bodies outside the department boundary to be carried at historical cost less impairment. For investments in public bodies, an impairment review is carried out for those bodies which HM Treasury intends to dispose of at future point. These are: Northern Rock, Northern Rock (Asset Management) and Bradford & Bingley. The carrying value of HM Treasury's equity investment in Northern Rock (Asset Management) and Bradford & Bingley is nil, and therefore no impairment is required.

As at 31 March 2011, an impairment of £212 million has been recognised against HM Treasury's investment in Northern Rock. Northern Rock's net asset value per their published accounts has been used as the best available proxy for market value, although the final amount that will ultimately be realised from a sale is unknown.

2.3 Asset Protection Scheme (APS) valuation

The APS is accounted for as a derivative. HM Treasury considered alternative options under IFRS; in particular whether the APS could be accounted for as an insurance contract or a financial guarantee. The APS is not considered an insurance contract primarily because it relates to a financial risk[2]. Furthermore, because certain "limited recourse assets" in the pool are only obligated to pay if funds are available, they cannot technically default, and so HM Treasury do not consider the APS a financial guarantee. HM Treasury assessed whether the APS meets the requirements to be defined as a derivative. The standard requires a derivative to have all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and,
- it is settled at a future date.

HM Treasury is of the opinion that the APS meets all of these requirements for the following reasons:

- the value of the APS is driven by the underlying credit risk of the assets in the Scheme, very much like a synthetic collateralised debt obligation (CDO), the credit risk of those underlying assets is therefore the 'underlying' in the APS;
- in order for HM Treasury to get exposure to that underlying risk without using a derivative it would have had to purchase the underlying assets / risk in a funded transaction, i.e. an asset purchase scheme, clearly when compared to that alternative the APS requires no such initial net investment; and
- the APS is settled at a future date, potential payouts will occur at future dates should the first loss be exceeded and has a contractual maturity of 2099.

While the best assessment of both RBS and HM Treasury is that the APS was agreed at fair value, this conclusion involved management judgement, and it is possible that the fair value was not zero. If this was the case, the fair value at 31 March 2011 would also differ from the figure reported in note 16.2. The valuation of the APS is sensitive to assumptions in relation to inputs that are not observable in the market. The impact of the following reasonably possible alternative assumptions has been tested:

- asset correlation: +/- 10 per cent (absolute);
- recovery uncertainty factor for non-triggered assets: +/- 10 per cent (absolute);
- mapped credit spreads: +/- 10 bps (absolute); and
- expected loss given default: +/-10 per cent (relative).

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[2] Credit insurance can be accounted for under IFRS 4 only if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. As HM Treasury has not previously made any such assertion, IFRS 4 cannot be applied to this transaction.

Using these reasonably possible alternative assumptions, the fair value of the APS at 31 March 2011 could be a liability of up to £0.9 billion or an asset of up to £0.3 billion. However, this would have only a limited effect on income in the SCNE, as circumstances affecting these assumptions are not believed to have changed since inception, and it would therefore be appropriate to apply them to the initial valuation as well.

The expectation is also that despite these uncertainties, the current assumptions will remain unchanged. However, they are reviewed periodically and will be changed if there is sufficient evidence that such action is appropriate. The uncertainty due to these assumptions is likely to exist throughout the life of the APS. As the scheme progresses, the size of the covered asset pool within the scheme will decrease, which will reduce exposure to uncertainties over expected losses and recoveries. However, as the scheme progresses, future valuations will be further from the initial calibration at the start of the scheme and the risk of cumulative differences over time increases the uncertainty of valuations.

An additional source of uncertainty is the quality of the portfolio data underlying the valuation, e.g. assets that are the subject of rule interpretation discussions, rating information that may be out of date, cover termination dates may be subject to change, and proxies being used to estimate Covered Amount for some asset classes. The potential impact of known or suspected data issues is in the order of +/- £150 million, though the current best estimate is that there will be no net effect. There is a potential for additional impact from data issues that are currently unknown.

Valuation results are subject to numerical uncertainty arising from the simulation-based approach to valuation. The uncertainty is in the order of +/-£25 million.

The model incorporates several simplifications:

- amortisation and prepayments are not recognised;
- foreign exchange (FX) volatility is not modelled;
- a single asset correlation is used for all asset pairs;
- generic credit curves based on geography and ratings have been used for most assets in the portfolio; and
- triggered assets are treated as having a deterministic recovery rate rather than the random recovery applied to non-Triggered Assets.

The first four simplifications are not expected to have a significant impact on the valuation as they would in general be absorbed by a change in the initial calibration, and the impact on subsequent changes in valuation would likely be trivial.

The impact of the fifth simplification will not be fully counteracted by a similar change in the initial calibration. As the amount of triggered assets increases over time the impact will increase and as recoveries are realised the impact will tend to shrink. As the amount of triggered assets increased in the period to 31 March 2011 the impact at the reporting date will be greater than it was at 22 December 2009 (the day on which RBS acceded to the APS). The difference in the impact at these two dates is not considered to be significant. See note 25 for analysis of fair value and related risk disclosures.

2.4 RBS contingent capital

HM Treasury has issued a contingent capital commitment to RBS for subscribing up to £8 billion of B-shares if RBS's Capital Adequacy Ratio (CAR) falls below 5 per cent. HM Treasury receives a commitment fee equal to 4 per cent of the un-utilised commitment. In accounting for this instrument, HM Treasury has applied the guidance in IFRS in determining whether it fulfils the criteria for recognition as a derivative. In the case of the contingent capital commitment, the main criterion for assessment is whether the underlying financial and non-financial variables are specific to one party of the contract. In exercising its judgement HM Treasury has determined that CAR is a non-financial variable specific to one party to the contract and therefore does not meet the definition of a derivative. It has been classified as a contingent liability and an assessment is made at each reporting date as to whether a provision for any payout to RBS needs to be made.

2.5 RBS Dividend Access Share

For RBS's Dividend Access Share (DAS), there is no market price. However, its value has been estimated using an option based valuation model using market observable and non-observable data and assumptions. The DAS is valued by assessing the cash flows receivable from dividends, and then adjusting these cash flows based on (a) the likelihood and size of ordinary share dividends, (b) the probability that the dividends are lost because the cancellation trigger is reached, and (c) the credit risk inherent in the cash flows as a result of their future payment. See note 25.2 for further details on key assumptions used. These assumptions are revisited at each reporting date. The fair value of the DAS is included in note 15.

Details of the sensitivity analysis undertaken are included in note 25.5.3.

2.6 Depositors' and Investors' Guarantee Fund (DIGF) loan

HM Treasury intervened to ensure that depositors in the failed Icelandic bank Landsbanki (Icesave) were compensated for the share of their deposits which should have been guaranteed by the Icelandic Depositors and Investors Guarantee Fund (DIGF). The DIGF's share of deposit liability is £2.3 billion, the majority of which is expected to be recoverable through the administration process. HM Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the remainder of the DIGF's share of payments to depositors plus interest on the full loan balance compounded from January 2009 when the loan was novated from the Bank of England.

HM Treasury considers that the loan and interest continue to be fully recoverable. However, as a loan agreement is not in place, there is uncertainty over the timing and final terms of the loan repayment. In applying IAS 18 Revenue, HM Treasury has assessed that interest cannot be measured with sufficient reliability to allow recognition. An impairment of £319 million has therefore been recognised against the DIGF loan to write-off interest from before the loan was novated from the Bank of England and to reflect the time value of money through not recognising interest income at this point.

The impairment relating to the irrecoverability of future interest has been calculated by discounting expected future cash flows at 3.5 per cent, in accordance with the FReM. HM Treasury's best estimate of the timing of future receipts in connection with the loan is based on reports from the administrator of Landsbanki and legal advice on the resolution of court proceedings. The cash flows reflect full repayment of the loan principal and the impairment therefore solely relates to the time value of money. Once an agreement is reached with the Icelandic authorities over the payment of interest, the impairment will be reversed and the loan will be held at amortised cost using the effective interest rate method, as detailed in note 1.18.1. For further details on Icesave, see note 36.

3. Prior Period Adjustments

3.1 Transfer of functions to Cabinet Office and Department for Business, Innovation and Skills

With effect from 15 June 2010, the Office of Government Commerce (OGC) transferred from HM Treasury to Cabinet Office and the Department for Business, Innovation and Skills, resulting in 297 full time equivalent posts being transferred. In accordance with HM Treasury's FReM, transfers of functions from one part of the public sector to another in the UK (known as Machinery of Government Changes) are accounted for using merger accounting. Under merger accounting, prior year figures for the group are restated as if the current arrangement of functions had always been in place and carrying values for 2010-11 have been transferred from the beginning of the year (1 April 2010).

3.2 Cost of Capital

In line with central Treasury advice, Prior Period Adjustments (PPAs) arising from the removal of the cost of capital charge were not included in Spring Supplementary Estimates for 2010-11, other than as a note, on the basis that the PPA numbers could have been misleading. The impact of this accounting policy change on Supply outturn in respect of 2009-10 is shown in note 3.3. PPAs arising from an error in previous recording or any other change in accounting policy were included in the Estimates in line with conventional arrangements.

The removal of the cost of capital charge has the following effect on Resource outturn in 2009-10. The Statement of Parliamentary Supply and related notes have not been restated for this effect.

3.3 Effects on Resource Outturn and Primary Statements

Effect on Resource Outturn in 2009-10

	2009-10 Group Total £000
Net Resource Outturn (Statement of Parliamentary Supply)	(22,024,933)
Removal of the cost of capital charge[1]	(3,097,250)
Adjusted Net Resource Outturn	**(25,122,183)**

[1] Included in the £3,097,250k is a charge of £1,651k relating to OGC. The cost of capital charge for Treasury Group in 2009-10, excluding OGC, is £3,095,599k.

Statement of Comprehensive Net Expenditure 2009-10

	Core Treasury £000	Less OGC £000	Less CoC £000	Budget reclassification[1]	2009-10 As restated Core Treasury £000
Net administration costs	137,050	(1,971)	2,283	(968)	136,394
Net programme costs RfR1: HM Treasury	1,328	-	(138,756)	968	(136,460)
Net programme costs RfR2: UK Coinage	22,916	-	(2,796)	-	20,120
Net programme costs/(income) RfR3: Financial Stability	(27,683,782)	-	(2,956,392)	-	(30,640,174)
Non –supply	11,992	-	-	-	11,992
Net operating costs/(income)	**(27,510,496)**	**(1,971)**	**(3,095,661)**	-	**(30,608,128)**
Other Comprehensive expenditure/(income)	**(11,357,981)**	-	-	-	**(11,357,981)**
Total comprehensive expenditure/(income) for the year ended 31 March 2010	**(38,868,477)**	**(1,971)**	**(3,095,661)**	-	**(41,966,109)**

[1] From 1 April 2010, take up and revaluation of provisions are classified as AME. This budgeting change for 2010-11 was announced on PES (2010) 01, prior year figures have been restated for comparative purposes.

Consolidated Statement of Comprehensive Net Expenditure 2009-10

	Group Total	Less OGC	Less CoC	Budget[1] reclassification	2009-10 As restated Group Total
	£000	£000	£000		£000
Net administration costs	173,020	(26,513)	2,318	(985)	147,840
Net programme costs RfR1: HM Treasury	6,963	(1,370)	(138,756)	985	(132,178)
Net programme costs RfR2: UK Coinage	22,916	-	(2,796)	-	20,120
Net programme costs/(income) RfR3: Financial Stability	(27,683,782)	-	(2,956,392)	-	(30,640,174)
Non –supply	11,992	-	-	-	11,992
Net operating costs/(income)	**(27,468,891)**	**(27,883)**	**(3,095,626)**	**-**	**(30,592,400)**
Other Comprehensive expenditure/(income)	**(11,357,981)**	**-**	**-**	**-**	**(11,357,981)**
Total comprehensive expenditure/(income) for the year ended 31 March 2010	**(38,826,872)**	**(27,883)**	**(3,095,626)**	-	**(41,950,381)**

[1]From 1 April 2010, take up and revaluation of provisions are classified as AME. This budgeting change for 2010-11 was announced on PES (2010) 01, prior year figures have been restated for comparative purposes.

Statement of Financial Position 2009-10

	Core Treasury	Less OGC	As restated Core Treasury	Group Total	Less OGC	Less APA CoC	2009-10 As restated Group Total
	£000	£000	£000	£000	£000	£000	£000
Non-current assets	124,621,938	(828)	124,621,110	124,626,442	(1,178)	-	124,625,264
Current assets (less cash and cash equivalents)	2,422,699	(697)	2,422,002	2,426,575	(2,725)	27	2,423,877
Cash and cash equivalents	1,243	697	1,940	1,956	(1)	-	1,955
Current liabilities	(1,834,234)	-	(1,834,234)	(1,848,767)	5,799	-	(1,842,968)
Non-current liabilities	(4,360,450)	-	(4,360,450)	(4,372,658)	8,936	-	(4,363,722)
Assets less liabilities	**120,851,196**	**(828)**	**120,850,368**	**120,833,548**	**10,831**	**27**	**120,844,406**
Taxpayers' equity	**120,851,196**	**(828)**	**120,850,368**	**120,833,548**	**10,831**	**27**	**120,844,406**

Statement of Financial Position 2008-09

	Core Treasury	Less OGC	As restated Core Treasury	Group Total	Less OGC	2008-09 As restated Group Total
	£000	£000	£000	£000	£000	£000
Non-current assets	72,922,222	(1,024)	72,921,198	72,923,754	(1,384)	72,922,370
Current assets (less cash and cash equivalents)	3,063,782	-	3,063,782	3,067,788	(1,627)	3,066,161
Cash and cash equivalents	3,152	-	3,152	4,975	(1,638)	3,337
Current liabilities	(2,786,661)	-	(2,786,661)	(2,799,861)	7,757	(2,792,104)
Non-current liabilities	(28,379,919)	-	(28,379,919)	(28,389,877)	9,785	(28,380,092)
Assets less liabilities	**44,822,576**	**(1,024)**	**44,821,552**	**44,806,779**	**12,893**	**44,819,672**
Taxpayers' equity	**44,822,576**	**(1,024)**	**44,821,552**	**44,806,779**	**12,893**	**44,819,672**

Cash Flow Statement 2009-10

	Core Treasury £000	Less OGC £000	Less CoC £000	As restated Core Treasury £000	Group Total £000	Less OGC £000	Less CoC £000	2009-10 As restated Group Total £000
Cash flows from operating activities								
Net operating cost	(27,510,496)	(1,971)	(3,095,661)	(30,608,128)	(27,468,891)	(27,883)	(3,095,626)	(30,592,400)
Adjustment for non-supply costs	(11,992)	-	-	(11,992)	(11,992)	-	-	(11,992)
Adjustment for non-cash transactions	22,234,907	321	3,095,661	25,330,889	22,231,131	2,965	3,095,599	25,329,695
Changes in working capital other than cash	(955,003)	-	-	(955,003)	(961,498)	(360)	27	(961,831)
Inter company	11,819	(54)	-	11,765	(20)	-	-	(20)
Movements in financial instruments passing through the SCNE	170,118	-	-	170,118	170,118	-	-	170,118
Use of provisions	17,735	-	-	17,735	20,714	(2,900)	-	17,814
of which non-cash	(17,165)	-	-	(17,165)	(17,165)	-	-	(17,165)
Net cash outflow/(inflow) from operating activities	**(6,060,077)**	**(1,704)**	**-**	**(6,061,781)**	**(6,037,603)**	**(28,178)**	**-**	**(6,065,781)**
Net cash outflow / (inflow) from investing	39,726,918	(125)	-	39,726,793	39,730,246	(117)	-	39,730,129
Net financing	(45,424,512)	1,132	-	(45,423,380)	(45,450,409)	27,029	-	(45,423,380)
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	**11,757,671**	**697**	**-**	**11,758,368**	**11,757,766**	**1,266**	**-**	**11,759,032**
Payments of amounts due to the Consolidated Fund	(11,759,580)	-	-	(11,759,580)	(11,760,785)	371	-	(11,760,414)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	**(1,909)**	**697**	**-**	**(1,212)**	**(3,019)**	**1,637**	**-**	**(1,382)**
Cash and cash equivalents at the beginning of the period	**3,152**	**-**	**-**	**3,152**	**4,975**	**(1,638)**	**-**	**3,337**
Cash and cash equivalents at the end of the period	**1,243**	**697**	**-**	**1,940**	**1,956**	**(1)**	**-**	**1,955**

4. Analysis of net resource outturn by section

4.1 Analysis of net resource outturn against estimate

	Admin	Programme	Gross Resource expenditure	Appropriations in Aid (note 10.1)	Net Total Outturn	Net total Estimate	2010-11 Net Total Outturn compared with Estimate	2009-10 (Restated) Net Total Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1								
Departmental Expenditure Limit								
Core Treasury	135,178	8,477	143,655	(7,174)	136,481	142,155	5,674	140,389
UK Debt Management Office	14,750	4,532	19,282	(4,230)	15,052	15,626	574	15,866
Office of Government Commerce	-	-	-	-	-	-	-	25,825
Employee benefits	(1,253)	-	(1,253)	-	(1,253)	1,500	2,753	1,347
Annually Managed Expenditure								
Investment in Bank of England	-	-	-	-	-	-	-	137,782
Equitable Life payment scheme	-	1,492,870	1,492,870	-	1,492,870	1,500,000	7,130	-
Core Treasury provisions	-	437	437	-	437	1,160	723	(3,123)
	148,675	**1,506,316**	**1,654,991**	**(11,404)**	**1,643,587**	**1,660,441**	**16,854**	**318,086**
Request for Resources 2								
Departmental Expenditure Limit								
UK Coinage: Manufacturing	-	13,811	13,811	-	13,811	15,000	1,189	12,500
UK Coinage: Inventory cost of capital charge	-	-	-	-	-	-	-	108
Annually Managed Expenditure								
UK Coinage: Metal	-	19,652	19,652	-	19,652	23,000	3,348	12,757
UK Coinage: Cost of capital charge	-	-	-	-	-	-	-	110
UK Coinage: Investment in Royal Mint	-	-	-	-	-	-	-	2,578
	-	**33,463**	**33,463**	**-**	**33,463**	**38,000**	**4,537**	**28,053**
Request for Resources 3								
Departmental Expenditure Limit								
United Kingdom Financial Investments Limited	2,797	-	2,797	-	2,797	3,000	203	4,207
Asset Protection Agency	14,715	-	14,715	(14,715)	-	1	1	(1)
Infrastructure Finance Unit Ltd	11,065	-	11,065	(10,821)	244	2,300	2,056	-
Annually Managed Expenditure								
Assistance to other financial institutions	-	(12,416,440)	(12,416,440)	-	(12,416,440)	-	12,416,440	(25,441,077)
Investments and loans cost of capital charge	-	-	-	-	-	-	-	2,956,392
Loan to Ireland	-	-	-	-	-	3,227,000	3,227,000	-
Impairments	-	942,156	942,156	-	942,156	10,569	(931,587)	109,407
	28,577	**(11,474,284)**	**(11,445,707)**	**(25,536)**	**(11,471,243)**	**3,242,870**	**14,714,113**	**(22,371,072)**
Resource Outturn	**177,252**	**(9,934,505)**	**(9,757,253)**	**(36,940)**	**(9,794,193)**	**4,941,311**	**14,735,504**	**(22,024,933)**
Non-Supply: Banking and gilts registration services					11,309			11,992
Operating income payable to the Consolidated Fund (note10.1)					(2,534,592)			(5,455,950)
Machinery of Government change (note 3.1)					-			(27,883)
Removal of the cost of capital charge (note 3.2)					-			(3,095,626)
Net operating income (2009-10 restated)					**(12,317,476)**			**(30,592,400)**

4.2 Key to Requests for Resources

Request for Resources 1: Maintain sound public finances and ensure high and sustainable growth, well being and prosperity for all.

Request for Resources 2: Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Request for Resources 3: Promoting a stable financial system and offering protection to ordinary savers, depositors, businesses and borrowers.

4.3 Explanation of Variances between Estimate and Outturn as at 31 March 2011

HM Treasury's Net Total Estimate for 2010-11 corresponds to funding allocated in the Comprehensive Spending Review 2007. Explanation for significance variances between Estimates and Outturn for 2010-11 are summarised below for each Request for Resources. For further details please see the management commentary in Chapter 6.

Request for Resources 1 (RfR 1): Maintain sound public finances and ensure high and sustainable growth, well being and prosperity for all.

Net Total Outturn was an under-spend of £16.9 million against a Net Total Estimate of £1.7 billion. The largest individual variance was £7.1 million for the Equitable Life Payment Scheme. This is entirely due to the discounting of future payments in these Resource Accounts. The expectation of total cash that will be paid out in ex-gratia payments is unchanged from the Estimate at £1.5 billion.

Core Treasury under spent by £5.7 million against Estimate. Of this, consultancy and contracted out services under spent by £2.8 million. This was as a result of tighter spending controls being implemented, including a requirement for approval from the Director of Finance and Commercial and the Economic Secretary of Treasury for consultancy expenditure over £20,000, stronger requirements for approved business cases for contracted out services and claw back of costs for delays in projects. Further under-spends of £1.3 million were achieved across hospitality, training and travel costs following new guidance for staff on minimising expenditure in these areas.

The employee benefits under-spend of £2.8 million is due to a reduction in the accrual for staff annual leave expenditure and is in line with the overall decrease in staff numbers.

Request for Resources 2 (RfR 2): Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Net Total Outturn was an under-spend of £4.5 million against a Net Total Estimate of £38 million. Coinage manufacturing costs were £1.2 million below Estimate. This is due to Royal Mint coin production levels being lower than the contracted levels.

Although higher than the prior year, metal expenditure on UK coinage was £3.3 million lower than the Estimate. This is due to lower than forecast production levels and significant fluctuations in prices causing difficulties in preparing an accurate forecast for the metal price Estimate. For example, compared to 2009-10 simple average metal values for copper and nickel fluctuated by 37 per cent and 42 per cent respectively.

Request for Resources 3 (RfR 3): Promoting stable financial system and offering protection to ordinary savers, depositors, businesses and borrowers.

Net total outturn showed an under-spend of £14.7 billion against an Estimate of £3.2 billion. This was primarily due to a favourable movement of the Bank of England Asset Purchase Fund Facility (BEAPFF) derivative by £10.6 billion and the Asset Protection Scheme (APS) derivative by £1.8 billion. It is not possible to accurately predict movements in either of these derivatives as their values change significantly with respect to a range of market variables, as detailed in notes 25.5.1 and 25.5.2.

In addition, the Estimate included £3.2 billion for a loan to Ireland. Whilst HM Treasury is committed to providing a bilateral loan to Ireland during 2011-12, it has not been necessary to impair or provide for costs in relation to the loan. This is because it is anticipated that HM Treasury will recover the full loan principal plus interest payments. Therefore the loan does not represent an onerous loan commitment. For further details on the intervention, see note 38.

Impairments were £932 million higher than the Estimate. Impairment charges incurred against RfR 3 comprise £340.6 million for LBG shares as a result of falls in the share price, £212 million for Northern Rock plc shares as a result of operating losses incurred by Northern Rock plc during 2010, £318.7 for the time value of money on the DIGF loan and £86.5 million for statutory debt, offset by utilisation of an impairment provision created in the previous year. The Estimate did not forecast future movements of share prices or operating gains and losses impacting the value of equity investments as this cannot be done reliably. The impairment of statutory debt is primarily as a result of revised forecasts being made over the timeframe for recovery from administrators and the impairment of the DIGF loan is as a result of uncertainty over the timing and final terms of the loan repayment. For further details see notes 15.1 and 17.1.

4.4 Expenditure outside supply process

This expenditure relates to payments to Computershare Investor Services plc for management of the gilts register, which are paid from the National Loans Fund (NLF), and to the Bank of England for managing the Exchange Equalisation Account (EEA), which are paid from the EEA. These costs will also be included within the NLF accounts and EEA accounts, respectively, for 2010-11.

5. Reconciliation of outturn to net operating costs and administration budget

5.1 Reconciliation of Net Resource Outturn to Net Operating Cost

				2010-11	2009-10
	Note	Supply Estimate	Outturn	Outturn compared with Estimate	(Restated) Outturn
		£000	£000	£000	£000
Net Resource Outturn	4.1	4,941,311	(9,794,193)	**14,735,504**	(22,024,933)
Non-supply income (CFERs)	10.1	(2,379,000)	(2,534,592)	**155,592**	(5,455,950)
Non-Supply: Banking and gilts registration services	4.1	14,800	11,309	**3,491**	11,992
Machinery of Government change	3.1	-	-	-	(27,883)
Removal of the cost of capital charge	3.2	-	-	-	(3,095,626)
Net Operating Cost/(Income)		**2,577,111**	**(12,317,476)**	**14,894,587**	**(30,592,400)**

5.2 Outturn against final administration budget

			2010-11	2009-10
				(Restated)
	Note	Budget	Outturn	Outturn
		£000	£000	£000
Gross administration budget / outturn		189,475	177,252	216,041
Income allowable against the administration budget /outturn	10.1	(39,157)	(37,924)	(68,202)
Net outturn against final administration budget		**150,318**	**139,328**	**147,839**

6. Reconciliation of resources to net cash requirement

	Note	Estimate	Outturn	Net Total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000
Resource Outturn	4.1	4,941,311	(9,794,193)	**14,735,504**
Capital:				
Acquisition of non-current assets – resources	13.1 & 14	13,751	15,951	**(2,200)**
Acquisition of financial assets	15.1 & 17.1	15,553,342	145,345	**15,407,997**
Adjustment for Machinery of Government change		-	131	**(131)**
Donated assets		-	(3)	**3**
Non-operating A-in-A: Other receipts treated as capital	14	(2,227)	(2,228)	**1**
Accrual adjustments				
Non-cash items	9.2	(4,746,674)	9,973,834	**(14,720,508)**
Changes in working capital other than cash	26	-	29,504	**(29,504)**
Change in PFI payables		-	1,557	**(1,557)**
Use of provision	21.1	81,829	7,569	**74,260**
Of which non-cash		-	(6,246)	**6,246**
Net Cash Requirement		**15,841,332**	**371,221**	**15,470,111**

7. Staff numbers and costs

7.1 Analysis of total staff costs

					2010-11	2009-10 (Restated[3])
	Ministers[1]	Special Advisors	Permanent staff	Others[2]	Total	Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	1,524	332	61,643	9,409	**72,908**	72,881
Social Security costs	111	53	5,477	46	**5,687**	5,365
Other pension costs		237	12,912	92	**13,241**	11,043
Total costs	**1,635**	**622**	**80,032**	**9,547**	**91,836**	**89,289**
Less recoveries in respect of outward secondments	-	-	(2,345)	-	**(2,345)**	(1,556)
Total net costs	**1,635**	**622**	**77,687**	**9,547**	**89,491**	**87,733**
Of which: Core Treasury						
Total costs	1,635	622	69,394	5,211	**76,862**	79,199
Less recoveries in respect of outward secondments	-	-	(2,268)	-	**(2,268)**	(1,486)
Total net costs	**1,635**	**622**	**67,126**	**5,211**	**74,594**	**77,713**

[1]Ministers include: Chancellor of the Exchequer – the Rt Hon George Osborne MP; Chief Secretary to the Treasury – the Rt Hon Danny Alexander MP; Financial Secretary to the Treasury - Mark Hoban MP; Exchequer Secretary to the Treasury - David Gauke MP; Economic Secretary to the Treasury - Justine Greening MP; and Commercial Secretary to the Treasury - Lord Sassoon

[2] Includes agency staff, contractor staff, temporary staff and staff seconded in.

[3] 2009-10 figures have been restated for Machinery of Government transfer. See note 3.1.

Total net staff costs excluding Core Treasury have increased by £4.9 million. This is primarily due to the APA being set up in December 2009 and therefore incurring only part-year costs during 2009-10.

Further staff costs of £0.14 million (2009-10: £0.34 million) are classified as programme and are included in note 9.1. In addition, £0.01million staff costs (2009-10: nil) have been charged to capital projects.

Ministers' costs include severance payments of £0.34 million made to Labour Ministers (£0.17 million) and Special Advisers (£0.17 million).

7.2 Pension schemes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which HM Treasury is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Associates) valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2010-11, employers' contributions of £10.97million were payable to the PCSPS (2009-10: £10.77 million adjusted for OGC as per note 3.1) at one of four rates in the range 16.7 to 24.3 per cent (2009-10: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2010-11 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0.35 million (2009-10: £0.11 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

Contributions due to the partnership pension providers at the balance sheet date were nil (2009-10: nil). Contributions prepaid at that date were nil.

7.3 Ill health retirement

During 2010-11 two people (2009-10: one person) retired early on ill-health grounds, resulting in additional accrued pension liabilities of £0.1 million (2009-10: £0.02 million). The costs of such retirements are funded by normal contributions to the PCSPS.

7.4 Average number of persons employed

The average number of full-time equivalent persons employed during the year was as follows:

					2010-11	2009-10 (Restated)
					Number	Number
	Ministers	Special Advisers	Officials	Others	Total	Total
Core Treasury	6.5	6	1,338	24	**1,374.5**	**1,433**
Group	6.5	6	1,477	41	**1,530.5**	**1,587**

7.5 Additional ministerial salaries borne by HM Treasury

In addition, HM Treasury bears the ministerial salaries of the following:

Official title	Name	2010-11 Salaries £000	2009-10 Salaries £000
Prime Minister	David Cameron (from May 2010)	65 – 70	
	Gordon Brown (from June 2007 to May 2010)	5 – 10	115 – 120
Chief Whip (Commons)	Patrick McLoughlin (from May 2010)	25 – 30	
	Nicholas Brown (from Oct 08 to May 2010)	5 – 10	75 – 80
Deputy Chief Whip (Commons)	John Randall (from May 2010)	25 - 30	
	Thomas McAvoy (from Oct 2008 to May 2010)	0 – 5	40 – 45
Chief Whip (Lords)	Baroness Anelay of St John's (from May 2010)	100 – 105	
	Lord Bassam (from Oct 08 to May 2010)	15 – 20	125 – 130
Deputy Chief Whip (Lords)	Lord Shutt of Greenland (from May 2010)	95 – 100	
	Lord Davies of Oldham (to May 2010)	10 – 15	115 – 120
Lords in waiting (7 posts, 3 unpaid)		540 – 545	560-565
Government and Assistant Government Whips (15 posts, 2 unpaid)		330 – 335	375-380

8. Other administration costs

8.1 Other administration costs

	2010-11		2009-10 (Restated)	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Staff-related costs, including training and travel	3,823	4,560	8,005	8,410
Accommodation costs:				
Interest element of on-balance sheet PFI contract	9,718	9,718	9,828	9,828
Service element of on-balance sheet PFI contract	3,700	3,700	3,693	3,693
Contingent rent on PFI contract	3,967	3,967	3,147	3,147
Other accommodation costs	5,524	7,959	5,156	7,338
Office services	7,617	10,683	10,124	12,707
Consultancy: legal	3,945	4,406	17,743	17,968
Consultancy and professional services: IT	13,948	14,259	7,278	8,594
Other consultancy	10,608	15,835	44,371	45,340
Other professional services	3,143	3,172	4,633	4,696
IFUL auditor's remuneration	12	12	-	-
Other	4	4	(37)	(37)
Non cash items				
Depreciation and amortisation of non-current assets	4,288	6,514	3,590	4,703
Loss/(gain) on disposal of non-current assets	84	84	36	36
Loss on impairment of non-current assets	127	127	-	-
Auditor's remuneration	371	434	270	330
Other non cash	(18)	(18)	-	-
Total non cash items	**4,852**	**7,141**	**3,896**	**5,069**
Total	**70,861**	**85,416**	**117,837**	**126,753**

No payments were made to the auditors in respect of non-audit services.

Other administration costs include an increase in expenditure on IT consultancy and professional services as a result of a new IT contract to improve services across the Treasury Group. For further details, see note 23.3. Also included in the other administration costs are £0.5million of costs relating to the Office for Budget Responsibility. These mainly comprise of other consultancy (£0.3 million), other accommodation costs (£0.1 million) and office services (£0.1 million).

Group total expenditure excluding Core Treasury has increased by £5.6 million in 2010-11 compared to 2009-10 primarily due to an increase in APA costs by £5.9 million. The APA was established on 7 December 2009 and as a result was only in operation for a part of the year in 2009-10.

8.2 Costs incurred and related recoveries on financial stability interventions

Other administration costs also include professional fees incurred in relation to the financial stability interventions. Some of these costs have been recharged to the institutions that have benefited from these measures as summarised below:

Costs incurred and related recoveries		2010-11	2009-10
		£000	£000
Professional fees incurred[1]:	Legal advice	466	14,753
	Financial advice	8,055	24,789
	Other advice	2,116	15,929
Other costs		11,823	11,004
Total		**22,460**	**66,475**
Related recoveries[2]		19,816	58,331

[1] Professional fees are included in Note 8.1 under various consultancy and professional services.

[2] Recoveries are included in Note 10.1 under Appropriated in Aid.

9. Net programme costs

9.1 Net programme costs

	Note	2010-11 Core Treasury £000	2010-11 Group £000	2009-10 (Restated) Core Treasury £000	2009-10 (Restated) Group £000
Request for Resources 1					
Building revaluation (non cash)		-	-	(3,123)	(3,123)
Other current expenditure		8,477	13,007	7,797	13,517
Equitable Life provision (non cash)	21.1	1,492,870	1,492,870	-	-
Other provisions: Provided in year (non-cash)		432	433	882	894
Unwinding of discount on provision (non-cash)		17	18	40	45
Change in provision due to change in discount rate (non-cash)		(12)	(12)	46	46
		1,501,784	**1,506,316**	**5,642**	**11,379**
Request for Resources 2					
UK coinage: manufacturing cost	24	13,811	13,811	12,500	12,500
UK coinage: metal costs	24	19,652	19,652	12,757	12,757
		33,463	**33,463**	**25,257**	**25,257**
Request for Resources 3					
BEAPFF and APS derivative fair value movements in SCNE (non cash)	16.1 & 16.2	(12,387,350)	(12,387,350)	(112,800)	(112,800)
Fair value movement on Ordinary share forward contract (non cash)		-	-	(6,080)	(6,080)
Impairment of financial assets (non cash)	25.7	942,156	942,156	109,407	109,407
Release of APS provision (non cash)		-	-	(25,000,000)	(25,000,000)
Other Provisions: Provided in year (non cash)	21.1	1,722	1,722	39,021	39,021
Release of surplus provision (non cash)	21.1	(30,812)	(30,812)	(362,180)	(362,180)
Interest expenditure		-	-	962	962
		(11,474,284)	**(11,474,284)**	**(25,331,670)**	**(25,331,670)**
Non-supply - Banking and gilts registration services	4.4	11,309	11,309	11,992	11,992
Subtotal programme costs		**(9,927,728)**	**(9,923,196)**	**(25,288,779)**	**(25,283,042)**
Less programme income					
Request for Resources 1 - HM Treasury	10.1	(176,893)	(178,003)	(142,102)	(143,557)
Request for Resources 2 - UK Coinage	10.1	(5,301)	(5,301)	(5,137)	(5,137)
Request for Resources 3 - Financial stability	10.1	(2,350,304)	(2,350,304)	(5,308,504)	(5,308,504)
		(2,532,498)	**(2,533,608)**	**(5,455,743)**	**(5,457,198)**
Net Programme Costs/ (Income)		**(12,460,226)**	**(12,456,804)**	**(30,744,522)**	**(30,740,240)**

9.2 Summary of non cash transactions

	Note	2010-11 Core Treasury £000	2010-11 Group £000	2009-10 (Restated) Core Treasury £000	2009-10 (Restated) Group £000
Administration costs non cash items	8.1	4,852	7,141	3,896	5,069
Programme costs non cash items	9.1	(9,980,977)	(9,980,975)	(25,334,785)	(25,334,764)
Total non-cash transactions		**(9,976,125)**	**(9,973,834)**	**(25,330,889)**	**(25,329,695)**

10. Income and appropriations in aid

10.1 Operating income analysed by activities

	2010-11			2009-10 (Restated)
	Appropriated in Aid	Payable to Consolidated Fund	Income included in SCNE	Income included in SCNE
	£000	£000	£000	£000
Administration income				
Core Treasury	17,987	1,723	**19,710**	60,642
DMO	3,120	379	**3,499**	3,716
APA	14,715	-	**14,715**	3,844
	35,822	**2,102**	**37,924**	**68,202**
Programme income				
Request for Resources 1				
Pool Re insurance premiums	-	111,106	**111,106**	38,973
Bank of England dividend	-	62,764	**62,764**	96,639
Other dividends and interest	-	513	**513**	2,719
Other current programme income	8	2,502	**2,510**	3,771
DMO	1,110	-	**1,110**	1,455
	1,118	**176,885**	**178,003**	**143,557**
Request for Resources 2				
Sale of coinage scrap metal	-	560	**560**	883
Royal Mint dividend	-	4,000	**4,000**	4,000
Royalty income	-	741	**741**	254
	-	**5,301**	**5,301**	**5,137**
Request for Resources 3				
Fees for financial guarantees	-	1,338,729	**1,338,729**	1,355,152
Fees for contingent capital	-	320,000	**320,000**	80,000
Gains/(losses) due to hedging ineffectiveness	-	(84,608)	**(84,608)**	19,971
Amortisation of loans	-	149,081	**149,081**	136,646
Interest income from loans and other dividend income	-	624,300	**624,300**	950,158
Exit fees and interest from Lloyds Banking Group for the Asset Protection Scheme	-	-	**-**	2,500,377
Other current programme income	-	2,802	**2,802**	266,200
	-	**2,350,304**	**2,350,304**	**5,308,504**
Department total operating income included in the SCNE	**36,940**	**2,534,592**	**2,571,532**	**5,525,400**
Other financial guarantee income not yet passing through SCNE	-	92,025	92,025	148,494
Department total operating income	**36,940**	**2,626,617**	**2,663,557**	**5,673,894**

Core Treasury administration income decreased by £41 million compared to 2009-10 due to HM Treasury receiving non-recurring income during 2009-10 for LBG and RBS accession costs to the APS.

Income Appropriated in Aid by the APA increased by £11 million. This is in line with the APA's increase in staff costs and other administration costs for its first full year of operation in 2010-11.

Income received from Pool Re and Pool Re Nuclear is in the form of insurance premiums for the funding commitment provided by HM Treasury as described in note 27.1. In accordance with the original agreement, this is collected three years in arrears of each calendar year and is subject to interest. In 2009-10, premiums relating to 2007 of £39 million were collected and accounted for based on receipts received. During 2010-11, premiums of £37.3 million relating to the calendar year 2008 were received. Although premiums are paid over three years in arrears, it is stated in the agreement that should the arrangement be terminated at any time, the whole amount of premium outstanding plus interest would be payable immediately. Therefore, in 2010-11 a £73.8 million accrual has been made for premiums and interest outstanding for calendar years 2009 and 2010.

In 2009-10 other current programme income of £266.2 million related to fees raised from share issues underwritten by HM Treasury for Lloyds Banking Group and Royal Bank of Scotland. No shares were underwritten in 2010-11.

10.2 Analysis of amounts payable to the Consolidated Fund

In addition to appropriations in aid, the following income and receipts relates to HM Treasury and is payable to the Consolidated Fund:

		Forecast 2010-11		Outturn 2010-11
	Income	*Cash receipts*	Income	*Cash receipts*
	£000	*£000*	£000	*£000*
Operating income and receipts – excess A-in-A	-	-	2,000	*2,000*
Other operating income and receipts not classified as A-in-A	2,379,000	*2,350,000*	2,624,617	*2,775,610*
Sub total	**2,379,000**	***2,350,000***	**2,626,617**	***2,777,610***
Non-operating cash receipts – excess A-in-A	-	-	-	-
Non-operating cash receipts not classified as A-in-A	2,200,000	*2,200,000*	3,067,739	*3,067,739*
Other amounts collectable on behalf of the Consolidated Fund	1,341	*1,341*	-	-
Total amounts payable to the Consolidated Fund	**4,580,341**	***4,551,341***	**5,694,356**	***5,845,349***

Income in the `Other operating income and receipts not classified as A-in-A' category, includes loan interest received from Northern Rock (Asset Management), Bradford & Bingley and the Financial Services Compensation Scheme (FSCS); fee income from RBS and Northern Rock (Asset Management) for contingent capital; fee income in respect of guarantees issued under the Credit Guarantee Scheme and in respect of deposit guarantees issued to Northern Rock, Northern Rock (Asset Management) and Bradford & Bingley.

'Other non-operating cash receipts not classified as A-in-A' relate to loan repayments, including repayments from Northern Rock (Asset Management), Kaupthing Singer and Friedlander (KSF), Heritable and Dunfermline, and also to cash receipts from RBS for its inclusion in the APS. The latter cash receipts are recognised in the SCNE through fair value changes in the APS derivative.

Further details on non-operating cash receipts not classified as appropriations in aid are included below:

	2010-11	2009-10 (Restated)
	£000	£000
Core Treasury:		
Repayments of loan principal and disposal of equity investments	2,459,353	11,009,377
Purchase of ordinary shares	-	(6,737,546)
Cash received from RBS for APS	700,000	1,400,000
Unwinding of discount included in operating income	(91,614)	(31,564)
Operating income included in disposal of equity investments	-	(97,131)
APA/DMO:		
Proceeds on disposal of non-current assets	-	-
Group Total	**3,067,739**	**5,543,136**

11. Segment reporting

11.1 Operating segments

The Group operating segments are reported in a manner consistent with the internal reporting provided to the Executive Management Board (EMB). As at 31 March 2011, HM Treasury's operating segments consisted of the following directorates and agencies:

- Budget, Tax and Welfare
- Corporate Services
- International and Finance
- Macroeconomic and Fiscal Policy
- Office of Tax Simplification
- Permanent Secretary and Ministerial
- Public Services and Growth
- Office for Budget Responsibility
- Asset Protection Agency
- UK Debt Management Office

These segments reflect the operating directorates of the Treasury prior to the 2010 Strategic Review, along with the APA and the DMO. From 2011-12 onwards reporting will follow the new group structure, as outlined in Chapter 4 of the Annual Report.

The EMB, which is responsible for allocating resources across the Treasury Group, and for assessing the performance of the operating segments based on each segment's outturn against budget, has been identified as the chief operating decision maker, in accordance with accounting standards. Transactions between segments are carried out at arm's length and any material intercompany balances are eliminated on consolidation.

11.2 Segmental analysis

Group segmental reporting analysis 2010-11

	Gross Expenditure/ (Income)	Income	Net Expenditure/ (Income)	Total Assets	Net Assets
	£000	£000	£000	£000	£000
Budget, Tax & Welfare	1,512,411	(67)	**1,512,344**	-	(1,492,870)
Corporate Services	60,633	(3,667)	**56,966**	779,186	(580,914)
International Finance	(11,448,551)	(1,150,337)	**(12,598,888)**	123,266,247	121,464,774
Macroeconomic & Fiscal Policy	52,447	(1,382,978)	**(1,330,531)**	4,438,364	4,436,364
Office of Tax Simplification	118	-	**118**	-	-
Permanent Secretary & Ministerial	9,418	(90)	**9,328**	-	-
Public Services & Growth	32,462	(15,069)	**17,393**	94,165	90,832
Office for Budget Responsibility	1,057	-	**1,057**	-	-
Total Core HM Treasury	**(9,780,005)**	**(2,552,208)**	**(12,332,213)**	**128,577,962**	**123,918,186**
Asset Protection Agency	14,715	(14,715)	-	6,290	1,611
UK Debt Management Office	19,346	(4,609)	**14,737**	3,063	162
Total Group	**(9,745,944)**	**(2,571,532)**	**(12,317,476)**	**128,587,315**	**123,919,959**

Group segmental reporting analysis 2009-10

	Gross Expenditure/ (Income)	Income	Net Expenditure/ (Income)	Total Assets	Net Assets
	£000	£000	£000	£000	£000
Budget, Tax & Welfare	15,823	(80)	**15,743**	-	-
Corporate Services	(241,033)	362,229	**121,196**	695,201	(598,322)
International Finance	(24,952,746)	(4,186,385)	**(29,139,131)**	122,051,523	117,153,846
Macroeconomic & Fiscal Policy	45,837	(1,683,391)	**(1,637,554)**	4,236,278	4,236,278
Office of Tax Simplification	-	-	**-**	-	-
Permanent Secretary & Ministerial	11,104	(28)	**11,076**	-	-
Public Services & Growth	29,272	(8,730)	**20,542**	62,050	58,566
Office for Budget Responsibility	-	-	**-**	-	-
Total Core HM Treasury	**(25,091,743)**	**(5,516,385)**	**(30,608,128)**	**127,045,052**	**120,850,368**
Asset Protection Agency	3,844	(3,844)	**-**	3,184	(5,023)
UK Debt Management Office	20,899	(5,171)	**15,728**	2,860	(939)
Total Group	**(25,067,000)**	**(5,525,400)**	**(30,592,400)**	**127,051,096**	**120,844,406**

12. Analysis of outturn against estimate by spending body

		2010-11	2009-10 (Restated)
	Estimate	Outturn	Outturn
	£000	£000	£000
Spending Body			
Core Treasury (excluding IFUL, IUK, OBR and OTS)	2,556,184	(12,336,429)	(30,612,341)
Infrastructure Finance Unit Limited and Infrastructure UK	2,300	244	6
Office for Budget Responsibility	-	1,057	-
Office of Tax Simplification	-	118	-
UK Financial Investments	3,000	2,797	4,207
Asset Protection Agency	1	-	-
UK Debt Management Office	15,626	14,737	15,728
Net Operating Cost/(income)	**2,577,111**	**(12,317,476)**	**(30,592,400)**

13. Property, plant and equipment

13.1 Group property, plant and equipment 2010-11

	Land	Buildings	Leasehold Improvement	Plant & Machinery	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost/valuation									
At 1 April 2010 (Restated)	24,812	74,438	1,124	262	549	9,743	1,649	-	**112,577**
Transfers	-	-	-	-	-	4,661	-	(4,661)	**-**
Additions	-	-	585	6	201	1,132	3	7,263	**9,190**
Impairments	-	-	-	-	-	-	(127)	-	**(127)**
Disposals	-	-	-	-	-	(1,828)	(2)	-	**(1,830)**
Revaluation	-	-	-	-	-	-	47	-	**47**
At 31 March 2011	**24,812**	**74,438**	**1,709**	**268**	**750**	**13,708**	**1,570**	**2,602**	**119,857**
Accumulated depreciation									
At 1 April 2010 (Restated)	-	-	835	13	293	7,813	-	-	**8,954**
Charge in year	-	1,654	108	26	88	1,728	-	-	**3,604**
Released on disposal	-	-	-	-	-	(1,769)	-	-	**(1,769)**
At 31 March 2011	**-**	**1,654**	**943**	**39**	**381**	**7,772**	**-**	**-**	**10,789**
Net book value 1 April 2010 (Restated)	24,812	74,438	289	249	256	1,930	1,649	-	**103,623**
Net book value 31 March 2011	**24,812**	**72,784**	**766**	**229**	**369**	**5,936**	**1,570**	**2,602**	**109,068**

Group property, plant and equipment 2009-10

	Land	Buildings	Leasehold Improvement	Plant & Machinery	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost/valuation									
At 1 April 2009 (Restated)	24,300	77,599	1,065	33	365	9,141	1,649	-	**114,152**
Revaluation adjustment	-	(4,699)	-	-	-	-	-	-	**(4,699)**
Additions	-	-	59	229	184	1,379	-	-	**1,851**
Disposals	-	-	-	-	-	(777)	(7)	-	**(784)**
Revaluation	512		-	-	-	-	7	-	**519**
Gain/(Loss) on revaluation charged to SCNE	-	1,538	-	-	-	-	-	-	**1,538**
At 31 March 2010 (Restated)	**24,812**	**74,438**	**1,124**	**262**	**549**	**9,743**	**1,649**	**-**	**112,577**
Accumulated depreciation									
At 1 April 2009 (Restated)	-	4,698	734	1	211	7,608	-	-	**13,252**
Revaluation adjustment	-	(4,698)	-	-	-	-	-	-	**(4,698)**
Charge in year	-	1,585	101	12	82	982	-	-	**2,762**
Released on disposal	-	-	-	-	-	(777)	-	-	**(777)**
Gain/(Loss) on revaluation charged to SCNE	-	(1,585)	-	-	-	-	-	-	**(1,585)**
At 31 March 2010 (Restated)	**-**	**-**	**835**	**13**	**293**	**7,813**	**-**	**-**	**8,954**
Net book value 1 April 2009 (Restated)	24,300	72,901	331	32	154	1,533	1,649	-	**100,900**
Net book value 31 March 2010 (Restated)	**24,812**	**74,438**	**289**	**249**	**256**	**1,930**	**1,649**	**-**	**103,623**

The net book value of property, plant and equipment comprises:

	Core Treasury	APA	DMO	Group
	£000	£000	£000	£000
1 April 2009 (Restated)	100,439	-	461	**100,900**
31 March 2010 (Restated)	103,032	309	282	**103,623**
31 March 2011	**108,718**	**201**	**149**	**109,068**

13.2 1 Horse Guards Road

1 Horse Guards Road is financed via a PFI contract and, applying the principles of IFRIC 12, the provision of serviced accommodation is treated as an infrastructure asset of HM Treasury. A full valuation was carried out by the Valuation Office Agency (VOA) in March 2010. A desktop revaluation is scheduled to take place in March 2013 by the VOA.

14. Intangible assets – software licences and externally generated software, assets under construction and internally generated software

Group intangible assets 2010-11

	Externally generated software	Software licences	Goodwill	Assets under construction	Internally generated software	2010-11 Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2010	1,509	9,821	-	1,500	3,696	**16,526**
Transfers	2,631	-	-	(2,980)	349	-
Additions	-	235	1,772	2,080	444	**4,531**
Disposals	-	(102)	-	-	(36)	**(138)**
At 31 March 2011	**4,140**	**9,954**	**1,772**	**600**	**4,453**	**20,919**
Accumulated depreciation						
At 1 April 2010	72	7,972	-	-	3,150	**11,194**
Charge in year	1,075	1,241	-	-	592	**2,908**
Disposals	-	(79)	-	-	(36)	**(115)**
At 31 March 2011	**1,147**	**9,134**	**-**	**-**	**3,706**	**13,987**
Net book value 1 April 2010	1,437	1,849	-	1,500	546	**5,332**
Net book value 31 March 2011	**2,993**	**820**	**1,772**	**600**	**747**	**6,932**

Group intangible assets 2009-10

	Externally generated software	Software licences	Assets under construction	Internally generated software	2009-10 Total
	£000	£000	£000	£000	£000
Cost/valuation					
At 1 April 2009	-	11,761	-	3,289	**15,050**
Transfers	(220)	-	220	-	-
Additions	1,729	670	1,280	655	**4,334**
Impairments	-	-	-	-	-
Disposals	-	(2,610)	-	(248)	**(2,858)**
At 31 March 2010	**1,509**	**9,821**	**1,500**	**3,696**	**16,526**
Accumulated depreciation					
At 1 April 2009	-	9,089	-	2,993	**12,082**
Charge in year	72	1,465	-	405	**1,942**
Disposals	-	(2,582)	-	(248)	**(2,830)**
At 31 March 2010	**72**	**7,972**	**-**	**3,150**	**11,194**
Net book value 1 April 2009	-	2,672	-	296	**2,968**
Net book value 31 March 2010	**1,437**	**1,849**	**1,500**	**546**	**5,332**

The net book value of intangible assets comprises:

	Core Treasury	APA	DMO	Group
	£000	£000	£000	£000
1 April 2009	2,266	-	702	2,968
31 March 2010	1,776	2,540	1,016	5,332
31 March 2011	**2,830**	**3,026**	**1,076**	**6,932**

15. Available-for-sale assets

15.1 Available-for-sale assets1 held HM Treasury

	Note	At 1 April 2009 (Restated)	At 1 April 2010 (Restated)	Additions	Transfers	Repayments	Fair Value Adjustment	Impairments	At 31 March 2011
		£000	£000	£000	£000	£000	£000	£000	£000
Core Treasury									
Bank of England		3,321,000	4,224,000	-	-	-	199,000	-	**4,423,000**
Royal Mint Public Dividend Capital		5,500	5,500	-	-	-	-	-	**5,500**
Partnerships UK ordinary shares		7,865	7,865	-	-	-	-	-	**7,865**
UKFI Ordinary shares		-	-	-	-	-	-	-	**-**
UK Asset Resolution shares		-	-	1	-	-	-	-	**1**
Northern Rock plc shares		-	1,400,000	-	-	-	-	(212,000)	**1,188,000**
Northern Rock (Asset Management) shares[2]		-	-	-	(-)	-	-	-	**-**
Bradford & Bingley ordinary shares[2]		-	-	-	(-)	-	-	-	**-**
RBS Preference shares		5,052,647	-	-	-	-	-	-	**-**
RBS Ordinary shares	15.1.1	5,599,180	17,443,727	-	-	-	(1,272,599)	-	**16,171,128**
RBS B shares		-	22,440,000	-	-	-	(1,637,100)	-	**20,802,900**
RBS Dividend Access Shares		-	2,475,297	-	-	-	(186,870)	-	**2,288,427**
Lloyds Banking Group preference shares		4,044,484	-	-	-	-	-	-	**-**
Lloyds Banking Group ordinary shares	15.1.1	5,019,496	17,329,915	-	-	-	(951,527)	(340,574)	**16,037,814**
Deposits Management (Heritable) Ltd (DMH)[3]		-	-	-	-	(-)	-	-	**-**
Local Partnerships shares		-	-	700	-	-	-	-	**700**
Total		**23,050,172**	**65,326,304**	**701**	**-**	**-**	**(3,849,096)**	**(552,574)**	**60,925,335**

[1] The category "available-for-sale" is consistent with terminology defined under IFRS. For a definition of "available-for-sale" see note 1.18.

[2] These shares, which have a nominal value of zero, were transferred to UKAR during 2010-11. See note 15.2.5 for further details.

[3] DMH was a subsidiary of HM Treasury set up to facilitate the resolution of Heritable Bank plc. DMH had net assets of approximately £1million. In June 2010 it was placed in to members' voluntary liquidation and the process was completed in January 2011. On completion of the process, a dividend was paid over to Heritable Bank plc and DMH was dissolved.

15.1.1 Available-for-sale assets managed on a tranche by tranche basis

HM Treasury has obtained ordinary shares in both RBS and Lloyds Banking Group at various points since October 2008. Fair value and impairment calculations are completed separately for each tranche to reflect the different acquisition costs over time. Across each of the tranches, the weighted average cost per share of RBS shares is £0.51 and of Lloyds Banking Group shares is £0.74.

The table below summarises the fair value adjustments and impairment charges for each tranche of shares. Further details on the financial performance of RBS and Lloyds Banking Group are included in notes 15.2.8 and 15.2.9 respectively.

	At 1 April 2009	At 1 April 2010	Fair Value Adjustment	Impairments	At 31 March 2011
	£000	£000	£000	£000	£000
Royal Bank of Scotland (Ordinary shares)					
Purchase of shares in October 2008	5,599,180	10,055,672	(733,608)	-	**9,322,064**
Participation in rights issue in April 2009	-	7,388,055	(538,991)	-	**6,849,064**
Total for Royal Bank of Scotland	**5,599,180**	**17,443,727**	**(1,272,599)**	**-**	**16,171,128**
Lloyds Banking Group (Ordinary shares)					
Purchase of shares in October 2008	1,826,582	1,662,255	-	(123,934)	**1,538,321**
Conversion of HBOS shares into Lloyds ordinary shares in January 2009	3,192,914	2,905,666	-	(216,641)	**2,689,025**
Participation in rights issue in June 2009	-	2,838,037	(211,598)	-	**2,626,439**
Participation in rights issue in December 2009	-	9,923,957	(739,928)	-	**9,184,029**
Total for Lloyds Banking Group	**5,019,496**	**17,329,915**	**(951,526)**	**(340,575)**	**16,037,814**

15.2 Accounts extracts of Available for Sale assets

This note provides certain financial information taken from the most recent financial statements for investments held in the Consolidated Statement of Financial Position. An analysis of fair value for available-for-sale assets is included in note 25.2.

15.2.1 Bank of England

HM Treasury wholly owns the capital stock in the Bank of England. In accordance with the special accounts direction, the investment in Bank of England is valued at net asset value as set out in their published accounts.

The Bank Charter Act 1844 requires that the Bank's note issue function be separated from its other activities. Accordingly, for accounting purposes, the Bank is divided into Issue Department and Banking Department, which are accounting designations and reporting entities. The Issue Department is solely concerned with the note issue and the assets backing the issue. The Banking Department comprises all other activities of the Bank.

The Bank of England is required to pay HM Treasury in lieu of dividend a sum equal to 50 per cent of the Banking Department's net profit for its previous financial year, or such other sum as HM Treasury and the Bank of England may agree. For 2010-11, a dividend of £64 million (2009-10: £97 million) is payable.

Extracts from the Banking Department's Accounts for the year ended 28 February 2011

	2011 £ million	2010 (Restated)[1] £ million
Extracts from the income statement		
Profit before tax	132	231
Corporation tax net of tax relief on payment to HM Treasury	(5)	(37)
Profit for the year attributable to shareholder	127	194
Payment to HM Treasury	(63)	(97)
Profit retained for the year	**64**	**97**
Extracts from the balance sheet		
Loans and advances to banks and other financial institutions	17,570	12,510
Other loans and advances	199,808	199,935
Securities held at fair value through profit and loss	4,752	4,085
Available-for-sale securities	4,941	4,390
Other assets	2,528	2,164
Total assets	**229,599**	**223,084**
Deposits from central banks	(13,836)	(11,429)
Deposits from banks and other financial institutions	(154,405)	(169,920)
Other deposits	(50,043)	(32,335)
Foreign currency bonds in issue	(5,037)	(4,126)
Other liabilities	(1,855)	(1,037)
Total liabilities	**(225,176)**	**(218,847)**
Total equity attributable to shareholder'	**4,423**	**4,237**

[1] The Banking Department's 2010 Accounts have been restated to reflect a finance lease that was previously recognised as an operating lease. The overall effect has been to increase the total equity attributable to shareholders' by £13 million. For further information, refer to the full Bank of England Report and Accounts, which are available at: www.bankofengland.co.uk.

The Issue Department is required to pay to the National Loans Fund in lieu of dividend a sum equal to 100 per cent of the Issue Department's net profit for its previous financial year. For 2010-11, a dividend of £475 million (2009-10: £491 million) is payable. This represents the interest on securities and other assets held by the Issue Department less the costs of production of bank notes and other expenses.

The Issue Department's liabilities (bank notes in circulation) are interest free. Notes in circulation at 28 February 2011 totalled £52.2 billion (2010: £50.2 billion). The notes are a liability of the Bank of England, which must be backed by an equivalent value of securities.

15.2.2 Royal Mint

HM Treasury wholly owns the Public Dividend Capital of the Royal Mint Trading Fund (and therefore its subsidiary company). In accordance with the FReM, HM Treasury's investment is shown at its historical cost. A dividend of £4 million is payable to HM Treasury for the year 2010-11(2009-10: £4 million).

Extracts from the Royal Mint Trading Fund's Accounts for the year ended 31 March 2011

	2011 £000	2010 £000
Extracts from the Profit and Loss statement		
Turnover	215,067	172,761
Operating profit	3,655	5,258
Net interest payable	(522)	(1,062)
Profit before taxation	**3,133**	**4,196**
Tax on profit/(loss) of ordinary activities	(590)	(443)
Profit for the year	**2,543**	**3,753**
Extracts from the Statement of Financial Position		
Non-current assets	47,669	33,375
Current assets	130,724	82,789
Liabilities due within one year	(120,382)	(53,779)
Liabilities due after more than one year	(2,744)	(3,269)
Net assets and shareholders' funds	**55,267**	**59,116**

For further information, refer to the full Royal Mint Report and Accounts, which are available at: www.royalmint.com .

15.2.3 Partnerships UK plc

Partnerships UK plc (PUK) is in the process of disposing of its various businesses and is expected to close down during 2011. Consequently it has elected not to produce accounts for the year ended 31 March 2011 and instead it will prepare accounts for the 18 month period to 30 September 2011.

HM Treasury retains an equity interest of 44.6 per cent of the shares of PUK and its investment is valued based on the break-up value of PUK.

PUK has paid a dividend of £2.2 million in 2010-11 (2009-10: £1.8 million).

15.2.4 UK Financial Investments Limited (UKFI)

UKFI is a Companies Act Company with HM Treasury as its sole shareholder. In accordance with the FReM, HM Treasury's shares in UKFI are being carried at historical cost, which is £1.

Extracts from UK Financial Investments Limited's Accounts for the year ended 31 March 2011

	2011 £000	2010 £000
Extracts from the income statement		
Total income	2,917	3,944
Administrative and other expenses	(2,917)	(3,944)
Profit/(loss) for the year	-	-
Extracts from the statement of financial position		
Total assets	560	850
Total liabilities	(560)	(850)
Net assets and shareholders' funds	-	-

For further information, refer to the full UK Financial Investments Limited's Report and Accounts, which are available at: www.ukfi.co.uk.

15.2.5 United Kingdom Asset Resolution plc (UKAR)

UKAR was established on 1 October 2010 as the single holding company for Northern Rock (Asset Management) plc (NRAM) and Bradford & Bingley plc (B&B). UKAR has been established to manage the closed mortgage books of both NRAM and B&B under a common governance and management structure. NRAM and B&B continue to be separate legal entities and publish their own financial statements, extracts of which are included in notes 15.2.6 and 15.2.7 below.

On 1 October both NRAM and B&B legally transferred into UKAR ownership.

Under the terms of incorporation HM Treasury provided an undertaking to UKAR that it would inject £1,000 of capital. This was made on 9 December 2010.

There is no requirement to produce consolidated accounts this year because of the short accounting period covered. The management team is currently assessing the most effective means of publishing the company's accounts going forward.

15.2.6 Northern Rock (Asset Management) plc and Northern Rock plc

During 2010-11, the ordinary shares in Northern Rock (Asset Management) plc were transferred to UKAR. In return HM Treasury received UKAR shares for the same value, which is nil.

In accordance with the FReM, ordinary shares in Northern Rock plc are carried at historical cost less impairment.

Please see note 29 for further information on Northern Rock (Asset Management) plc and Northern Rock plc.

Extracts from Northern Rock (Asset Management) plc's Accounts for the year ended 31 December 2010

	2010 £ million	2009[1] (Restated) £ million
Extracts from the consolidated income statement		
Total income	1,463	1,122
Profit/(loss) before taxation	401	(258)
Tax on profit/(loss) of ordinary activities	9	(19)
Profit/(loss) for the year	**410**	**(277)**
Extracts from the consolidated balance sheet		
Total assets	66,276	87,445
Total liabilities	(64,958)	(86,390)
Total equity	**1,318**	**1,055**
Total non-shareholders' funds	(209)	(1,441)
Share capital and reserves	**1,109**	**(386)**

[1]The income statement has been subject to a number of reclassifications during 2010 to be consistent with UKAR; this has been reflected in the 2009 comparatives. There has been no impact to the overall loss previously reported in 2009.

For further information, refer to the Northern Rock (Asset Management) plc Report and Accounts, which are available at: www.northernrockassetmanagement.co.uk.

Extracts from Northern Rock plc's Accounts for the Year Ended 31 December 2010

	2010 £ million	3 July to 31 December 2009 £ million
Extracts from the consolidated income statement		
Total income	105	-
(Loss) before taxation	(224)	-
Tax on profit/(loss) of ordinary activities	-	-
Loss for the year	**(224)**	**-**
Extracts from the consolidated balance sheet		
Total assets	18,562	1,400
Total liabilities	(17,374)	(1,400)
Total equity	**1,188**	**-**

For further information, refer to the full Northern Rock plc Report and Accounts, which are available at: www.companyinfo.northernrock.co.uk.

15.2.7 Bradford & Bingley plc

In accordance with the FReM, HM Treasury's shares in Bradford & Bingley were carried at historical cost, which is nil. These shares were transferred to UKAR during 2010-11 and in return HM Treasury received UKAR shares of the same value.

Please see note 30 for further information on Bradford and Bingley.

Extracts from Bradford & Bingley plc's Accounts for the year ended 31 December 2010

	2010 £ million	2009[1] (Restated) £ million
Extracts from the consolidated income statement		
Total income	673	623
Profit/(Loss) before taxation	1,081	(196)
Tax on profit of ordinary activities	(262)	98
Profit/(Loss) for the year	**819**	**(98)**
Extracts from the consolidated balance sheet		
Total assets	45,359	49,395
Total liabilities	(43,152)	(48,001)
Share capital and reserves	**2,207**	**1,394**

[1]The income statement has been subject to a number of reclassifications during 2010 to be consistent with UKAR; this has been reflected in the 2009 comparatives. There has been no impact to the overall loss previously reported in 2009.

For further information, refer to the full Bradford & Bingley plc Report and Accounts, which are available at www.bbg.co.uk.

15.2.8 Royal Bank of Scotland Group plc (RBS)

In accordance with the Special Accounts Direction, HM Treasury's shares in RBS are carried at fair value. An analysis of fair value is presented in note 25.2. Please see note 31 for further information on RBS.

Extracts from Royal Bank of Scotland Group plc's Accounts for the year ended 31 December 20010

	2010 £ million	2009[1] (Restated) £ million
Extracts from the consolidated income statement		
Total income	31,868	33,026
(Loss) before taxation	(399)	(2,647)
Tax credit/(charge) on loss of ordinary activities	(634)	429
(Loss) from discontinued operations, net of tax	(633)	(105)
(Loss) for the year	**(1,666)**	**(2,323)**
Extracts from the consolidated balance sheet		
Total assets	1,453,576	1,696,486
Total liabilities	(1,376,725)	(1,601,855)
Total equity	**76,851**	**94,631**

[1]Restated for the reclassification of results from discontinued operations. For further information, refer to the full Royal Bank of Scotland Group plc Report and Accounts pages 143 & 146, which are available at: www.rbs.com.

15.2.9 Lloyds Banking Group plc (LBG)

HM Treasury holds ordinary shares in LBG. In accordance with the Special Accounts Direction, these shares are carried at fair value, as calculated using the LBG share price.

An analysis of fair value is presented in note 25.2. Please see note 32 for further information on LBG.

Extracts from Lloyds Banking Group plc's Accounts for the year ended 31 December 2010

	2010 £ million	2009 £ million
Extracts from the consolidated income statement		
Total income	43,467	45,297
Profit before taxation	281	1,042
Tax credit/(charge) on loss/profit of ordinary activities	(539)	1,911
(Loss)/profit for the year	**(258)**	**2,953**
Extracts from the consolidated balance sheet		
Total assets	991,574	1,027,255
Total liabilities	(944,672)	(983,148)
Total equity	**46,902**	**44,107**

For further information, refer to the full Lloyds Banking Group plc Report and Accounts pages 107, 109 & 110, which can be viewed on the following website www.lloydsbankinggroup.com.

16. Derivative financial instruments

16.1 HM Treasury holds the following derivative financial assets

	At 1 April 2009	At 1 April 2010	Fair Value Adjustment	At 31 March 2011
	£000	£000	£000	£000
Core Treasury				
Ordinary share forward contract	1,018,341	-	-	-
BEAPFF	-	(87,199)	10,587,350	10,500,151
Total	**1,018,341**	**(87,199)**	**10,587,350**	**10,500,151**

16.2 HM Treasury holds the following derivative financial liabilities

	At 1 April 2009	At 1 April 2010	Cash Movements	Fair Value Adjustment	At 31 March 2011
	£000	£000	£000	£000	£000
Core Treasury					
Ordinary share forward contract	(427,607)	-	-	-	-
APS derivative	-	(1,200,000)	(700,000)	1,800,000	(100,000)
Total	**(427,607)**	**(1,200,000)**	**(700,000)**	**1,800,000**	**(100,000)**

16.3 HM Treasury holds the following forward currency contracts

	At 1 April 2009	At 1 April 2010	Fair Value Adjustment	At 31 March 2011
	£000	£000	£000	£000
Core Treasury				
Forward currency contracts assets expiring within one year	8,872	363,809	(298,568)	65,241
Forward currency contracts assets expiring after more than one year	18,594	167,806	(163,193)	4,613
Forward currency contracts liabilities expiring within one year	(17,474)	(305,864)	277,131	(28,733)
Forward currency contracts liabilities expiring after more than one year	(21,721)	(226,001)	221,850	(4,151)
Total	**(11,729)**	**(250)**	**37,220**	**36,970**

The fair value methodology for derivatives is detailed in note 25.2.

17. Loans & receivables

17.1 Loans and advances to financial institutions

	Note	At 1 April 2009	At 1 April 2010	Additions	Transfers	Loan Repayments	Impairment Reversals	Amortisation	Impairments	At 31 March 2011
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Core Treasury										
Loans and Receivables										
Partnerships UK Loan Stock		15,594	7,797	-	-	-	-	-	-	**7,797**
Northern Rock Loan (prior to restructuring)	29	14,561,479	-	-	-	-	-	-	-	**-**
Northern Rock Asset Management loan	29	-	22,970,004	-	-	(1,377,490)	-	-	-	**21,592,514**
Bradford & Bingley loan asset	30	320,932	-	-	-	-	-	-	-	**-**
Bradford & Bingley working capital facility	30	6,000,000	8,550,000	-	-	-	-	-	-	**8,550,000**
Bradford & Bingley statutory debt	30	3,040,404	2,136,982	-	-	-	-	69,442	(59,385)	**2,147,039**
KSF statutory debt	34	233,394	162,596	-	40,551	(92,480)	17,567	9,702	-	**137,936**
London Scottish statutory debt	35	7,021	8,188	5,771	2,380	-	-	379	(5,763)	**10,955**
Heritable statutory debt	33	34,181	40,456	-	-	(13,854)	-	1,165	(293)	**27,474**
Icesave statutory debt	36	415,238	603,713	12,301	3,444	-	-	20,085	(19,665)	**619,878**
Dunfermline statutory debt	37	1,452,344	1,399,846	-	-	(427,538)	-	48,311	(9,605)	**1,011,014**
FSCS Bradford & Bingley loan	30	14,207,293	15,658,945	-	-	-	-	-	-	**15,658,945**
FSCS KSF loan	34	2,793,560	1,766,936	-	(40,551)	(477,574)	-	-	-	**1,248,811**
FSCS Heritable loan	33	519,171	307,354	-	-	(70,417)	-	-	-	**236,937**
FSCS London Scottish loan	35	88,485	180,784	44,229	(2,380)	-	-	-	-	**222,633**
FSCS Icesave Loan	36	3,369,924	1,412,809	36,469	(11,338)	-	-	-	-	**1,437,940**
Depositors' and Investors' Guarantee Fund (DIGF) loan[1]	36	-	2,245,935	16,230	7,894	-	-	-	(318,683)	**1,951,376**
Local Partnerships UK Loan		-	-	375	-	-	-	-	-	**375**
Loans given by IFUL	39.5	-	46,387	29,267	-	-	-	-	-	**75,654**
Loans and Receivables Sub total		**47,059,020**	**57,498,732**	**144,642**	**-**	**(2,459,353)**	**17,567**	**149,084**	**(413,394)**	**54,937,278**

[1] An impairment has been recognised against the DIGF due to the uncertainty over the final terms of the loan agreement. For details of the accounting policy applied, see note 2.6.

17.2 Trade receivables

17.2.1 Analysis by type

	2010-11		2009-10 (Restated)		2008-09 (Restated)	
	Core Treasury	Group	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000	£000	£000
Amounts falling due within one year						
Other taxation and social security	1,742	1,742	4,236	4,236	4,126	4,126
Trade receivables	3,469	3,645	7,395	7,700	4,730	5,597
Deposits and advances	237	286	264	321	290	338
Other receivables	2	13	28	204	29	40
Prepayments and accrued income financed by Supply	24,928	29,445	10,684	12,021	23,727	25,180
Sub-total: Supply financed balances	**30,378**	**35,131**	**22,607**	**24,482**	**32,902**	**35,281**
Accrued income from financial institutions due to the Consolidated Fund on receipt	429,173	429,173	559,875	559,875	908,448	908,448
Other accrued income due to the Consolidated Fund on receipt	34,345	34,345	3,357	3,357	151	151
Amounts due from the Consolidated Fund in respect of supply	-	-	106	106	5,513	5,513
Fee receivable for financial guarantees	1,083,882	1,083,882	1,465,470	1,465,470	1,083,672	1,083,672
Sub-total: Non-supply financed balances	**1,547,400**	**1,547,400**	**2,028,808**	**2,028,808**	**1,997,784**	**1,997,784**
Total	**1,577,778**	**1,582,531**	**2,051,415**	**2,053,290**	**2,030,686**	**2,033,065**
Amounts falling due after more than one year						
Other receivables (Supply financed)	3,746	3,879	1,318	1,325	-	9
Accrued investment income	-	-	1,189	1,189	-	-
Other non-current accrued income	39,891	39,891	-	-	-	-
Fees receivable for financial guarantees	384,252	384,252	1,520,953	1,520,953	2,690,707	2,690,707
	427,889	**428,022**	**1,523,460**	**1,523,467**	**2,690,707**	**2,690,716**
Total	**2,005,667**	**2,010,553**	**3,574,875**	**3,576,757**	**4,721,393**	**4,723,781**
Of which						
Due to the Consolidated Fund on receipt	**1,971,543**	**1,971,543**	**3,550,844**	**3,550,844**	**4,682,978**	**4,682,978**

'Prepayments and accrued income financed by Supply' include £20 million in respect of the Machinery of Government change to the Cabinet Office and the Department for Business, Innovation and Skills. 'Other accrued income due to the Consolidated Fund on receipt' and 'Other non-current accrued income' relate to Pool Re income receivable in 2011-12 and after 31st March 2012 respectively.

17.2.2 Analysis by classification of trade receivables

	Amounts falling due within one year			Amounts falling due after more than one year		
	2010-11	2009-10 (Restated)	2008-09 (Restated)	2010-11	2009-10	2008-09
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	23,619	4,977	5,645	-	-	-
Balances with local authorities	(507)	(428)	166	-	-	-
Balances with NHS Trusts	8	10	54	-	-	-
Balances with public corporations and trading funds	3,806	(867)	273	43,637	1,318	-
Subtotal: intra government balances	**26,926**	**3,692**	**6,138**	**43,637**	**1,318**	**-**
Balances with bodies external to government	1,555,605	2,049,598	2,026,927	384,385	1,522,149	2,690,716
Total Receivables at 31 March 2011	**1,582,531**	**2,053,290**	**2,033,065**	**428,022**	**1,523,467**	**2,690,716**

18. Inventories

HM Treasury pays Royal Mint for coins upon production in line with the Coinage Contract (UKCC). Production is in accordance with an agreed schedule and under the contract Royal Mint produces a 12 week supply of buffer stock. HM Treasury holds the inventory of finished coins on its Statement of Financial Position, as shown below.

		2010-11		2009-10		2008-09
	Core Treasury	Group	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000	£000	£000
Coinage scrap metal inventories	28	28	104	104	54	54
Finished coinage inventories awaiting issue	9,836	9,836	6,674	6,674	5,829	5,829
Total	**9,864**	**9,864**	**6,778**	**6,778**	**5,883**	**5,883**

19. Cash

19.1 Cash and cash equivalents

		2010-11		2009-10 (Restated)		2008-09 (Restated)
	Core Treasury	Group	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000	£000	£000
Balance at 1 April	1,940	1,955	3,152	3,337	1,555	1,887
Net change in cash balances - inflow/(outflow)	16,325	16,325	(1,212)	(1,382)	1,597	1,450
Balance at 31 March 2011	**18,265**	**18,280**	**1,940**	**1,955**	**3,152**	**3,337**
The following balances were held at 31 March:						
Government Banking Service	18,265	18,265	1,940	1,940	3,152	3,152
Bank of England	-	14	-	14	-	184
Cash in hand	-	1	-	1	-	1
Balance at 31 March 2011	**18,265**	**18,280**	**1,940**	**1,955**	**3,152**	**3,337**

19.2 Reconciliation of Net Cash Requirement to Increase/(Decrease) in Cash

		2010-11	2009-10 (Restated)	2008-09 (Restated)
		Group	Group	Group
	Note	£000	£000	£000
Net Cash Requirement		(371,221)	(45,447,736)	(88,309,709)
From the Consolidated Fund (Supply) – current year		387,518	45,451,856	88,916,520
Unused supply surrendered		-	-	(612,000)
Amounts due to the Consolidated Fund received and not paid	20.1	2,089	2,061	9,200
Amounts due to the Consolidated Fund – received in a prior year and paid over		(2,061)	(9,200)	(2,540)
From the Consolidated Fund (non-Supply)		-	-	1,555,162
Capital transaction (non-Supply)		-	-	(1,555,162)
Machinery of Government transfer		-	1,637	(21)
Increase/(decrease) in cash		**16,325**	**(1,382)**	**1,450**

20. Liabilities

20.1. Trade payables and other liabilities

20.1.1 Analysis by type

Amounts falling due within one year	2010-11 Core Treasury	2010-11 Group	2009-10 (Restated) Core Treasury	2009-10 (Restated) Group	2008-09 (Restated) Core Treasury	2008-09 (Restated) Group
	£000	£000	£000	£000	£000	£000
Trade payables	1,839	2,035	808	1,334	2,067	2,566
Other payables	1,066	1,159	4,503	4,416	2,043	2,317
Other taxation and social security	1,554	1,894	1,514	1,738	1,396	1,544
Accruals and deferred income	24,845	29,430	30,274	37,040	34,920	38,261
Capital accruals	1,892	2,055	2,552	3,585	427,909	428,182
Subtotal: Supply financed working capital payables	**31,196**	**36,573**	**39,651**	**48,113**	**468,335**	**472,870**
PFI contract (note 23.2)	1,676	1,676	1,557	1,557	1,447	1,447
Deferred contingent capital fee income	240,000	240,000	240,000	240,000	-	-
Amounts issued from the Consolidated Fund for Supply but not spent at year end	16,191	16,191	-	-	-	-
Consolidated Fund extra receipts received	1,710	2,089	1,861	2,061	8,017	8,850
Consolidated Fund extra receipts receivable	1,065,779	1,065,779	1,117,831	1,117,831	1,483,892	1,483,892
Total	**1,356,552**	**1,362,308**	**1,400,900**	**1,409,562**	**1,961,691**	**1,967,059**

Amounts falling due after more than one year	2010-11 Core Treasury	2010-11 Group	2009-10 Core Treasury	2009-10 Group	2008-09 Core Treasury	2008-09 Group
	£000	£000	£000	£000	£000	£000
PFI contract (note 23.2)	128,976	128,976	130,653	130,653	132,209	132,209
Deferred income	3,333	5,044	3,484	6,643	-	-
Total	**132,309**	**134,020**	**134,137**	**137,296**	**132,209**	**132,209**

20.1.2 Analysis by classification of trade payables

	2010-11	2009-10 (Restated)	2008-09 (Restated)	2010-11	2009-10	2008-09
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	1,085,423	1,120,354	1,495,346	-	-	-
Balances with local authorities	(21)	59	4	-	-	-
Balances with NHS Trusts	(2)	-	56	-	-	-
Balances with public corporations and trading funds	2,914	2,431	646	-	-	-
Subtotal: intra government balances	**1,088,314**	**1,122,844**	**1,496,052**	**-**	**-**	**-**
Balances with bodies external to government	273,994	286,718	471,007	134,020	137,296	132,209
Total Payables at 31 March 2011	**1,362,308**	**1,409,562**	**1,967,059**	**134,020**	**137,296**	**132,209**

20.1.3 Other liabilities - financial guarantees

	2010-11	2009-10	2008-09
	£000	£000	£000
Core Treasury			
Financial Guarantees			
Credit Guarantee Scheme	941,274	2,094,089	2,261,443
Banks under Temporary Public Ownership	598,818	705,277	963,293
Total	**1,540,092**	**2,799,366**	**3,224,736**

21. Provisions for liabilities and charges

21.1 Analysis of provisions

for the year ended 31 March 2011

	Equitable Life	Financial stability provisions	Other	Early departure commitments	Total
	£000	£000	£000	£000	£000
Core Treasury					
Balance at 1 April 2010	-	38,675	1,115	1,427	**41,217**
Provided in the year	1,492,870	1,722	422	10	**1,495,024**
Provision utilised in year	-	(6,246)	(769)	(480)	**(7,495)**
Provision not required written back	-	(30,516)	(296)	-	**(30,812)**
Unwinding of discount	-	-	-	17	**17**
Change in discount rate	-	-	-	(12)	**(12)**
At 31 March 2011	**1,492,870**	**3,635**	**472**	**962**	**1,497,939**
Others					
Balance at 1 April 2010 (Restated)	-	-	-	185	**185**
Provided in the year	-	-	-	1	**1**
Provision utilised in year	-	-	-	(74)	**(74)**
Transfer from payables	-	-	-	-	**-**
Unwinding of discount	-	-	-	1	**1**
Change in discount rate	-	-	-	-	**-**
At 31 March 2011	**-**	**-**	**-**	**113**	**113**
Group					
At 1 April 2010 (Restated)	-	38,675	1,115	1,612	**41,402**
At 31 March 2011	**1,492,870**	**3,635**	**472**	**1,075**	**1,498,052**

for the year ended 31 March 2010

	Financial stability provisions	Other	Early departure commitments	Total
	£000	£000	£000	£000
Core Treasury				
Balance at 1 April 2009	25,294,700	84,644	1,798	**25,381,142**
Provided in the year	38,675	1,115	113	**39,903**
Provision utilised in year	(17,165)	-	(570)	**(17,735)**
Provision not required written back	(25,277,535)	(84,644)	-	**(25,362,179)**
Unwinding of discount	-	-	40	**40**
Change in discount rate	-	-	46	**46**
At 31 March 2010	**38,675**	**1,115**	**1,427**	**41,217**
Others				
Balance at 1 April 2009 (Restated)	-	-	248	**248**
Provided in the year	-	-	12	**12**
Provision utilised in year	-	-	(79)	**(79)**
Unwinding of discount	-	-	4	**4**
Change in discount rate		-	-	**-**
At 31 March 2010	**-**	**-**	**185**	**185**
Group				
At 1 April 2009 (Restated)	25,294,700	84,644	2,046	**25,381,390**
At 31 March 2010 (Restated)	**38,675**	**1,115**	**1,612**	**41,402**

21.2 Maturity analysis of provisions

for the year ended 31 March 2011

	Equitable Life	Financial stability provisions	Other	Early departure commitments	Total
	£000	£000	£000	£000	£000
Core Treasury					
Provisions due within one year	500,000	3,635	472	366	**504,473**
Provisions due after more than one year	992,870	-	-	596	**993,466**
Balance at 31 March 2011	**1,492,870**	**3,635**	**472**	**962**	**1,497,939**
Other					
Provisions due within one year	-	-	-	57	**57**
Provisions due after more than one year	-	-	-	56	**56**
Balance at 31 March 2011	**-**	**-**	**-**	**113**	**113**
Group					
Provisions due within one year	500,000	3,635	472	423	**504,530**
Provisions due after more than one year	992,870	-	-	652	**993,522**
Balance at 31 March 2011	**1,492,870**	**3,635**	**472**	**1,075**	**1,498,052**

for the year ended 31 March 2010

	Financial stability provisions	Other	Early departure commitments	Total
	£000	£000	£000	£000
Core Treasury				
Provisions due within one year	38,675	1,115	481	**40,271**
Provisions due after more than one year	-	-	946	**946**
Balance at 31 March 2010	**38,675**	**1,115**	**1,427**	**41,217**
Other				
Provisions due within one year	-	-	72	**72**
Provisions due after more than one year	-	-	113	**113**
Balance at 31 March 2010 (Restated)	**-**	**-**	**185**	**185**
Group				
Provisions due within one year	38,675	1,115	553	**40,343**
Provisions due after more than one year	-	-	1,059	**1,059**
Balance at 31 March 2010 (Restated)	**38,675**	**1,115**	**1,612**	**41,402**

for the year ended 31 March 2009

	Financial stability provisions	Other	Early departure commitments	Total
	£000	£000	£000	£000
Core Treasury				
Provisions due within one year	294,700	84,644	545	**379,889**
Provisions due after more than one year	25,000,000	-	1,253	**25,001,253**
Balance at 31 March 2009	**25,294,700**	**84,644**	**1,798**	**25,381,142**
Other				
Provisions due within one year	-	-	75	**75**
Provisions due after more than one year	-	-	173	**173**
Balance at 31 March 2009 (Restated)	**-**	**-**	**248**	**248**
Group				
Provisions due within one year	294,700	84,644	620	**379,964**
Provisions due after more than one year	25,000,000	-	1,426	**25,001,426**
Balance at 31 March 2009 (Restated)	**25,294,700**	**84,644**	**2,046**	**25,381,390**

21.3 Explanation of provisions

21.3.1 Equitable Life

As part of the Spending Review on 20 October 2010, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out upfront over the first three years of the Spending Review period. A total provision of £1,493 million has been created to cover the payments over the life of the scheme.

21.3.2 Financial stability provisions

Financial stability provisions relate to the estimated unrecoverable element of payments to deposit holders made in the current year, for which the split between statutory debt and FSCS debt is not yet known, and for the unrecoverable statutory debt element of loan commitments which have been made in the current year and will be utilised during 2011-12.

During 2010-11, financial stability provisions of £6.2 million were utilised against statutory debt impairments. Further provisions have been made in relation to unknown splits existing at year end and for confirmed loan commitments. Provisions not required are released to the SCNE.

The expected timing of the resulting transfer of economic benefits is expected to occur by 31 March 2012.

21.3.3 Other provisions

Other provisions include indemnities, Transfer of Undertakings (Protection of Employment) Regulations (TUPE) and legal costs.

HM Treasury has indemnified the Debt Management Account (DMA) against any losses it suffers on the difference between the rates at which the funds are raised for Bank of England Asset Purchase Facility to deposit with the Bank and the rate received by the Debt Management Account (DMA) on its deposit with the Bank – that is, Bank Rate. The provision has been reduced in the current year as the cost incurred by the DMO for raising the funds was lower than the Bank rate. When the BEAPFF is closed down, HM Treasury will pay a one off net amount to the DMA. The expected timings of any resulting transfer of economic benefits are considered to be less than one year, which is in line with the BEAPFF derivative liability.

The TUPE provision created to protect HM Treasury's employee's rights and conditions upon their transfer to Fujitsu has been utilised in the current year.

During 2010-11, new provisions have been created for legal costs in relation to a number of ongoing claims. The expected timings of any resulting transfer of economic benefits are considered to be less than one year.

21.3.4 Early departure commitments

HM Treasury meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The full costs become a binding obligation on HM Treasury when the early retirement is agreed and these are held in a provision. The expected timings of any resulting transfer of economic benefits are considered to be £0.4 million within 1 year and the balance after one year.

22. Capital commitments

		2010-11		2009-10 (Restated)
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Contracted capital commitments at 31 March not otherwise included in these financial statements				
Property, plant & equipment	-	-	1,694	1,694
Intangible Assets	-	-	-	1,600
Undrawn loan commitments from IFUL	40,599	40,599	72,295	72,295
Loan to Ireland	3,227,000	3,227,000	-	-
Approved but not contracted capital commitments				
New equity/loans into Northern Rock	-	-	2,500,000	2,500,000
Increase B&B working capital loan	-	-	3,000,000	3,000,000
Assistance to other financial institutions	-	-	24,000	24,000
Undrawn loan commitments to FSCS	65,000	65,000	670,000	670,000
Workspace Optimisation	6,900	6,900	-	-
OSCAR IT upgrade Project	6,063	6,063	-	-
Other	1,980	1,980	1,150	2,070
Total	**3,347,542**	**3,347,542**	**6,269,139**	**6,271,659**

The approved but not contracted capital commitments that will be utilised in 2011-12 are included in the Main Estimates for 2011-12.

23. Commitments under leases

23.1 Operating leases

Total future minimum lease payments under operating lease are given in the table below for each of the following periods.

	2010-11			2009-10
	Core Treasury	Group	Core Treasury	Group (Restated)
	£000	£000	£000	£000
Buildings:				
Not later than one year	340	1,640	1,115	1,242
Later than one year and not later than five years	732	5,456	4,397	4,518
Later than five years	-	5,749	4,120	6,758
	1,072	**12,845**	**9,632**	**12,518**
Other:				
Not later than one year	699	797	1,266	1,364
Later than one year and not later than five years	-	153	810	990
Later than five years	-	-	-	-
	699	**950**	**2,076**	**2,354**

23.2 PFI contracts

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnership in respect of Core HM Treasury's buildings at 1 Horse Guards Road.

Applying the principals of IFRIC 12 *Service Concession Arrangements*, the provision of the serviced accommodation at 1 Horse Guards Road building is treated as an infrastructure asset of HM Treasury (see note 13.2).

The PFI contract has been assessed under IAS 39 - *Financial Instruments Recognition and Measurement* to determine that no embedded derivatives exist that needs to be separately accounted for in the financial statements. This PFI finance lease obligation has been accounted for as a liability in note 20.1.1.

The substance of the contract is that HM Treasury has a finance lease and that payments comprise two elements; imputed finance lease charges and service charges. Details of the imputed finance lease charges are in the following table.

	2010-11			2009-10 (Restated)
The finance lease obligation under the on-balance sheet PFI contract comprises:	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Rentals due within one year	11,275	11,275	11,275	11,275
Rentals due between two to five years	45,100	45,100	45,100	45,100
Rentals due thereafter	240,536	240,536	251,811	251,811
Total rental payments	**296,911**	**296,911**	**308,186**	**308,186**
Less interest element	166,258	166,258	175,977	175,977
Total	**130,653**	**130,653**	**132,209**	**132,209**

The total amount charged in the SCNE in respect of the service element (including contingent element) was £7.7 million (2009-10: £6.8 million). This has been accounted for in note 8.1.

At 31 March 2011 HM Treasury was committed to pay service charges in future years:

		2010-11		2009-10
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Service charge due within one year	8,471	8,471	7,675	7,675
Service charge due between two to five years	39,907	39,907	37,450	37,450
Service charge due thereafter	457,817	457,817	468,745	468,745
Total service charges	**506,195**	**506,195**	**513,870**	**513,870**

23.3 IT services

In 2009-10, HM Treasury signed a contract with Fujitsu to provide information and communication technology services. These services are delivered as part of the Cabinet Office Public Sector Flex shared service framework; a shared services solution which offers benefits and economies of scale across Government.

Fujitsu is also responsible for providing support and service facilities to deliver a more flexible and resilient ICT service over the five year period of the contract.

The accounting for the IT services contract has been assessed under IFRC 12 *Service Concession Arrangements* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The purchase of exclusive assets (HM Treasury's as per IFRIC 4) required to run the service are included on HM Treasury's Statement of Financial Position and depreciated across their useful economic life. Assets purchased but not controlled by HM Treasury are to be charged to the SCNE across the life of the contact. The cost of the IT service is charged direct to the SCNE. Details of the contractual payments are shown below:

		2010-11		2009-10
Minimum payments	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Not later than one year	10,027	10,027	7,008	7,008
Later than one year and not later than five years	31,302	31,302	41,329	41,329
Later than five years	-	-	-	-
Total	**41,329**	**41,329**	**48,337**	**48,337**

24. Other financial commitments: manufacturing coinage

HM Treasury has committed to pay the Royal Mint for the metal and manufacturing costs of supplying new UK circulating coinage to meet the demand from banks and other distributors. The manufacturing price is agreed in a Coinage Contract (UKCC) covering 2010-11 to 2014-15. Pricing is on an equalised margin basis across denominations. The Royal Mint recharges HM Treasury for the metal prices it incurs, which are variable in line with market prices.

Monthly payments are made for coins manufactured by the Royal Mint. Coins which have been produced and paid for by HM Treasury but have not yet been issued are stored in coin centres located at the Royal Mint and held as inventory on HM Treasury's Statement of Financial Position. The coins are later issued to the coin centres and then purchased by banks at face value when required. The payments by the banks are made into the Coinage Deposit Account and surrendered to the Consolidated Fund by the Royal Mint.

For the year 2010-11 HM Treasury purchased 1,145 million coins (2009-10 1,184 million) and 1,112 million (2009-10 1,184 million) coins were despatched to the coin centre. The net inventory movement resulted in manufacturing charges of £13.8 million (2009-10: £12.5 million) to the SCNE, including VAT, and metal charges of £19.7 million (2009-10: £12.8 million). The metal charges for HM Treasury have increased by 54 per cent mainly due to the increase in worldwide metal commodity prices, particularly copper and nickel.

25. Financial instruments

The following tables and narrative provide information on the financial instruments' balances included in these accounts and analyses the nature and extent of risks arising from financial instruments, and how these risks have been managed.

25.1 Classification

Core Treasury classes of financial instruments 2010-11

	Fair value through SCNE	Hedging derivatives	Available-for-sale	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets / liabilities	At 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	-	-	-	-	-	108,718	**108,718**
Intangible assets	-	-	-	-	-	2,830	**2,830**
Available-for-sale financial assets	-	-	60,925,335	-	-	-	**60,925,335**
Derivative financial assets expiring after more than one year	-	4,613	-	-	-	-	**4,613**
Loans and receivables							
Loans and advances to financial institutions	-	-	-	54,937,278	-	-	**54,937,278**
Trade and other receivables due after more than one year	-	-	-	427,889	-	-	**427,889**
Derivative financial assets expiring within one year	10,500,151	65,241	-	-	-	-	**10,565,392**
Trade and other receivables due within one year	-	-	-	1,576,916	-	862	**1,577,778**
Inventories	-	-	-	-	-	9,864	**9,864**
Cash and cash equivalents	-	-	-	18,265	-	-	**18,265**
Total assets	**10,500,151**	**69,854**	**60,925,335**	**56,960,348**	**-**	**122,274**	**128,577,962**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,354,998)	(1,554)	**(1,356,552)**
Provisions due within one year	-	-	-	-	(504,473)	-	**(504,473)**
Derivative financial liabilities expiring within one year	-	(28,733)	-	-	-	-	**(28,733)**
Financial guarantees	-	-	-	-	(1,540,092)	-	**(1,540,092)**
Derivative financial liabilities expiring after more than one year	(100,000)	(4,151)	-	-	-	-	**(104,151)**
Other payables falling due after more than one year	-	-	-	-	(128,976)	(3,333)	**(132,309)**
Provisions due after more than one year	-	-	-	-	(993,466)	-	**(993,466)**
Total liabilities	**(100,000)**	**(32,884)**	**-**	**-**	**(4,522,005)**	**(4,887)**	**(4,659,776)**
Total taxpayers' equity	**10,400,151**	**36,970**	**60,925,335**	**56,960,348**	**(4,522,005)**	**117,387**	**123,918,186**

Group classes of financial instruments 2010-11

	Fair value through SCNE	Hedging derivatives	Available-for-sale	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets / liabilities	At 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	-	-	-	-	-	109,068	**109,068**
Intangible assets	-	-	-	-	-	6,932	**6,932**
Available-for-sale financial assets	-	-	60,925,335	-	-	-	**60,925,335**
Derivative financial assets expiring after more than one year	-	4,613	-	-	-	-	**4,613**
Loans and receivables							
Loans and advances to financial institutions	-	-	-	54,937,278	-	-	**54,937,278**
Trade and other receivables due after more than one year	-	-	-	428,022	-	-	**428,022**
Derivative financial assets expiring within one year	10,500,151	65,241	-	-	-	-	**10,565,392**
Trade and other receivables due within one year	-	-	-	1,580,079	-	2,452	**1,582,531**
Inventories	-	-	-	-	-	9,864	**9,864**
Cash and cash equivalents	-	-	-	18,280	-	-	**18,280**
Total assets	**10,500,151**	**69,854**	**60,925,335**	**56,963,659**	**-**	**128,316**	**128,587,315**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,360,416)	(1,892)	**(1,362,308)**
Provisions due within one year	-	-	-	-	(504,530)	-	**(504,530)**
Derivative financial liabilities expiring within one year	-	(28,733)	-	-	-	-	**(28,733)**
Financial guarantees	-	-	-	-	(1,540,092)	-	**(1,540,092)**
Derivative financial liabilities expiring after more than one year	(100,000)	(4,151)	-	-	-	-	**(104,151)**
Other payables falling due after more than one year	-	-	-	-	(130,687)	(3,333)	**(134,020)**
Provisions due after more than one year	-	-	-	-	(993,522)	-	**(993,522)**
Total liabilities	**(100,000)**	**(32,884)**	**-**	**-**	**(4,529,247)**	**(5,225)**	**(4,667,356)**
Total taxpayers' equity	**10,400,151**	**36,970**	**60,925,335**	**56,963,659**	**(4,529,247)**	**123,091**	**123,919,959**

Core Treasury classes of financial instruments 2009-10

	Fair value through SCNE	Hedging derivatives	Available-for-sale	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets / liabilities	At 31 March 2010 (Restated)
	£000	£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	-	-	-	-	-	103,032	**103,032**
Intangible assets	-	-	-	-	-	1,776	**1,776**
Available-for-sale financial assets	-	-	65,326,304	-	-	-	**65,326,304**
Derivative financial assets expiring after more than one year	-	167,806	-	-	-	-	**167,806**
Loans and receivables							
Loans and advances to financial institutions	-	-	-	57,498,732	-	-	**57,498,732**
Trade and other receivables due after more than one year	-	-	-	1,523,460	-	-	**1,523,460**
Derivative financial assets expiring within one year	-	363,809	-	-	-	-	**363,809**
Trade and other receivables due within one year	-	-	-	2,046,597	-	4,818	**2,051,415**
Inventories	-	-	-	-	-	6,778	**6,778**
Cash and cash equivalents	-	-	-	1,940	-	-	**1,940**
Total assets	**-**	**531,615**	**65,326,304**	**61,070,729**	**-**	**116,404**	**127,045,052**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,399,386)	(1,514)	**(1,400,900)**
Provisions due within one year	-	-	-	-	(40,271)	-	**(40,271)**
Derivative financial liabilities expiring within one year	(87,199)	(305,864)	-	-	-	-	**(393,063)**
Financial guarantees	-	-	-	-	(2,799,366)	-	**(2,799,366)**
Derivative financial liabilities expiring after more than one year	(1,200,000)	(226,001)	-	-	-	-	**(1,426,001)**
Other payables falling due after more than one year	-	-	-	-	(130,653)	(3,484)	**(134,137)**
Provisions due after more than one year	-	-	-	-	(946)	-	**(946)**
Total liabilities	**(1,287,199)**	**(531,865)**	**-**	**-**	**(4,370,622)**	**(4,998)**	**(6,194,684)**
Total taxpayers' equity	**(1,287,199)**	**(250)**	**65,326,304**	**61,070,729**	**(4,370,622)**	**111,406**	**120,850,368**

Group classes of financial instruments 2009-10

	Fair value through SCNE	Hedging derivatives	Available-for-sale	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets / liabilities	At 31 March 2010 (Restated)
	£000	£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	-	-	-	-	-	103,623	**103,623**
Intangible assets	-	-	-	-	-	5,332	**5,332**
Available-for-sale financial assets	-	-	65,326,304	-	-	-	**65,326,304**
Derivative financial assets expiring after more than one year	-	167,806	-	-	-	-	**167,806**
Loans and receivables							
Loans and advances to financial institutions	-	-	-	57,498,732	-	-	**57,498,732**
Trade and other receivables due after more than one year	-	-	-	1,523,467	-	-	**1,523,467**
Derivative financial assets expiring within one year	-	363,809	-	-	-	-	**363,809**
Trade and other receivables due within one year	-	-	-	2,047,444	-	5,846	**2,053,290**
Inventories	-	-	-	-	-	6,778	**6,778**
Cash and cash equivalents	-	-	-	1,955	-	-	**1,955**
Total assets	**-**	**531,615**	**65,326,304**	**61,071,598**	**-**	**121,579**	**127,051,096**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,407,826)	(1,736)	**(1,409,562)**
Provisions due within one year	-	-	-	-	(40,343)	-	**(40,343)**
Derivative financial liabilities expiring within one year	(87,199)	(305,864)	-	-	-	-	**(393,063)**
Financial guarantees	-	-	-	-	(2,799,366)		**(2,799,366)**
Derivative financial liabilities expiring after more than one year	(1,200,000)	(226,001)	-	-	-	-	**(1,426,001)**
Other payables falling due after more than one year	-	-	-	-	(133,812)	(3,484)	**(137,296)**
Provisions due after more than one year	-	-	-	-	(1,059)	-	**(1,059)**
Total liabilities	**(1,287,199)**	**(531,865)**	**-**	**-**	**(4,382,406)**	**(5,220)**	**(6,206,690)**
Total taxpayers' equity	**(1,287,199)**	**(250)**	**65,326,304**	**61,071,598**	**(4,382,406)**	**116,359**	**120,844,406**

25.2 Fair value of financial assets and liabilities

(i) Financial instruments measured at fair value through SCNE

Asset Protection Scheme (APS) derivative: As a derivative, the APS is measured at fair value, as determined using a valuation model. The APS is a unique financial instrument, but the common instrument it most closely resembles is a synthetic Collateralised Debt Obligation (CDO), an instrument which transfers credit risk, in whole or in part, on a pool of assets without transferring ownership of the assets themselves. The valuation model used to determine the fair value of the APS is a Gaussian copula model with stochastic recovery, which is an industry standard model for valuing CDO instruments. Further details on the design of the valuation model can be found in *HM Treasury Resource Accounts: 2009-10*.

The APS valuation at 31 March 2011 was a liability of £0.1 billion. This represents the payment of fees received of £2.1 billion and changes since inception in remaining life to maturity, credit spreads, foreign exchange rates, interest rates, and the portfolio. Consequently, HM Treasury has made a mark-to-market gain of £2.0 billion since inception of the APS on 22 December 2009 (£1.8 billion in the year ended 31 March 2011), with shortened time to maturity and portfolio changes (e.g. migration, amortisation, prepayments) leading to a gain that was partially offset by moves in credit spreads. There was negligible movement due to foreign exchange or interest rates. The APS valuation, and consequent mark-to-market gain in the income statement, is consistent with HM Treasury's central projection of a net benefit to the taxpayer from the Asset Protection Scheme of £5 billion, including fee income (being £2.5 billion from Lloyds and £2.5 billion from RBS). For a sensitivity analysis of the APS derivative, see note 25.5.1.

Bank of England Asset Purchase Facility Fund (BEAPFF) derivative: The fair value of the derivative represents the best estimate of the amount due to HM Treasury from Bank of England on settlement of the scheme. It is arrived by calculating the difference between the fair value of the assets (market value of the underlying instruments) as at the reporting date and their purchase price in the quantitative easing, less administration and interest charges.

The BEAPFF derivative valuation at 31 March 2011 was an asset of £10.5 billion (2009-10: liability of £87.2 million) and a fair value gain of £10.6 billion has been recognised in the SCNE in 2010-11. The derivative value represents interest income since the beginning of the scheme, realised and mark to market gains and losses on the portfolio assets, and interest expense on the loan from the Bank of England used to purchase assets. As indicated by the changes to its value during 2010-11, the BEAPFF derivative is highly volatile. Over time, it is anticipated that the asset value of the derivative will reduce and may result in an overall liability. For a sensitivity analysis of the BEAPFF derivative, see note 25.5.2.

(ii) Hedging derivatives

Forward currency contracts relating to the Credit Guarantee Scheme:

The fair value of forward foreign exchange contracts on initial recognition is zero. Following initial recognition, the fair value is determined by using valuation techniques that refer to observable market data.

The fair value is determined by comparing the exchange rates associated with two forward contracts. These are:

- the forward contract already held by HM Treasury, due to mature at a specified date at the future; and
- an equivalent forward contract that could be acquired at the reporting date that would mature on the same specified date in the future.

The foreign currency cash-flows are translated into Sterling using the two exchange rates. The difference is discounted and recognised as the movement in fair value. At 31 March 2011, HM Treasury held net forward currency assets of £37 million (see note 16.3).

(iii) Available for Sale investments

The fair value of the investments in the ordinary shares of Royal Bank of Scotland plc and Lloyds Banking Group plc is determined by using the published share prices as at the reporting date. While RBS B shares are not listed on a stock exchange, they can be converted into ordinary shares at the option of HM Treasury at any time. Therefore, it is assumed they are worth the market value of the underlying ordinary shares and are valued using the closing price of RBS ordinary shares.

For the RBS dividend access share, there is no market price. It has the right to an enhanced dividend over and above the sum of the ordinary dividend entitlement of each B share originally purchased by HM Treasury. It is payable if dividends are paid on ordinary shares (and therefore effectively at the discretion of the RBS Board) at any time up to and including the day falling 20 days after such time as the market price of RBS's ordinary shares exceeds 65 pence for 20 or more out of 30 consecutive dealing days. This is termed the cancellation trigger.

The value of the RBS dividend access share has been estimated using an option based valuation model using market observable and non-observable data and assumptions. Key assumptions used are:

- should the dividend access share cancellation trigger be reached between declaration dates, and at the following scheduled dividend declaration a dividend is declared, accrued payments on the dividend access share will not be paid up until the cancellation trigger;
- a single data-point for the credit spread is assumed in the model;
- the model assumes that there are no dividend payments before 2013, based on market estimates; and
- traded securities referred to for the assessment of the appropriate current risk spread of the B shares are:

Royal Bank of Scotland Securities plc Series 1	Royal Bank of Scotland Securities plc Series 1
EUR 1,250 million issue size	EUR 1,250 million issue size
ISIN: XS0205935470	ISIN: DE000A0E6C37

A sensitivity analysis on the value of the DAS for a range of reasonably alternative inputs into the model is included in note 25.5.3.

In accordance with the special accounts direction, the investments in Bank of England and Partnerships UK are recognised as being equal to HM Treasury's share of net assets per their accounts. Gains and losses arising on subsequent measurement are recognised directly in the AFS Reserve.

In accordance with the FReM, available-for-sale financial assets that are interests in public bodies outside the departmental boundary (excluding Bank of England and Partnerships UK) are carried at historical cost less any impairment recognised. Therefore, a fair value comparative for such bodies is not disclosed. Public bodies include public dividend stock held in the Royal Mint and ordinary shares in UK Financial Investments Limited, UK Asset Resolution, Bradford & Bingley plc, Northern Rock (Asset Management) plc and Northern Rock plc. Extracts from the latest audited financial statements for these entities are provided in note 15.2. Further details on all available-for-sale assets are included in note 15.1.

(iv) Loans and receivables

Loans and receivables are carried at amortised cost at the reporting date. Please see note 17.1 for details, including movements in year.

Loans provided by HM Treasury predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. It is not possible to provide a reliable estimate of the current fair values of these loans.

Northern Rock Asset Management and Bradford & Bingley have not been accessing financial markets to raise new funding and, if they did, market interest rates would be distorted by their being in Temporary Public Ownership.

For statutory debt, the counterparties are failed financial institutions which are in administration. Therefore, there are no current market prices for loans to these bodies.

Other organisations, including the FSCS and Local Partnerships, do not access the financial markets for loans as they are entirely funded within Government.

Although fair values are not available, the table below provides an indication of the cost to HM Treasury of providing the loans, at current rates of interest, by discounting future cash flows receivable at HM Treasury's cost of borrowing, as approximated by UK gilt prices.

Cost of borrowing for loans and receivables which are carried at amortised cost

	Amortised cost as at 31 March 2011	Cost of borrowing as at 31 March 2011
	£000	£000
Loans and Receivables		
Partnerships UK Loan Stock	7,797	7,922
Northern Rock Asset Management loan	21,592,514	17,201,985
Bradford & Bingley working capital facility	8,550,000	8,487,564
Bradford & Bingley statutory debt	2,147,039	2,064,428
KSF statutory debt	137,936	139,224
London Scottish statutory debt	10,955	11,043
Heritable statutory debt	27,474	27,270
Icesave statutory debt	619,878	643,333
Dunfermline statutory debt	1,011,014	1,057,972
FSCS Bradford & Bingley loan	15,658,945	13,471,506
FSCS KSF loan	1,248,811	1,150,159
FSCS Heritable loan	236,937	216,932
FSCS London Scottish loan	222,633	199,242
FSCS Icesave Loan	1,437,940	1,358,655
Depositors' and Investors' Guarantee Fund (DIGF) loan	1,951,376	1,939,255
Local Partnerships UK Loan	375	375
Loans given by IFUL	75,654	77,212
Loans and Receivables Sub total	**54,937,278**	**48,054,078**

25.2.1 Valuation hierarchy of financial instruments carried at fair value

Financial instruments	Level 1	Level 2	Level 3	Other[1]	Total
	£m	£m	£m	£m	£m
Available-for-sale financial assets	32,209	25,234	2,288	1,194	**60,925**
Derivatives financial assets	-	10,570	-	-	**10,570**
Total	**32,209**	**35,804**	**2,288**	**1,194**	**71,495**
Derivative financial liabilities	-	(33)	(100)	-	**(133)**
Total	**32,209**	**35,771**	**2,188**	**1,194**	**71,362**

[1]This column comprises available-for-sale assets which are held at historical cost in accordance with the FReM. These assets cannot be classified within the fair value hierarchy.

The valuation hierarchy above classifies financial instruments carried at fair value into three levels according to the source of information used to determine the fair values.

Level 1 fair values are measured using unadjusted quoted prices in active markets for identical assets or liabilities. This category comprises of investments in ordinary shares of Royal Bank of Scotland plc and Lloyds Banking Group plc.

Level 2 fair values are measured using inputs other than quoted prices that are either directly or indirectly observable. This includes the Bank of England Asset Purchase Facility derivative, forward contracts relating to Credit Guarantee Schemes, B shares in RBS, and investments in Bank of England and Partnerships UK where net asset value is used as a proxy for fair value under the special accounts direction.

Level 3 fair values are measured using at least one unobservable input which could have a significant effect on the instrument's valuation. This includes the Asset Protection Scheme derivative and Dividend Access Share.

There were no transfers between level 1 and level 2 during the year and there have been no transfers in or out of level 3.

Please see notes 15.1 and 16 for movements between opening and closing balances of financial instruments.

25.3 Income and expense

The income and expense recognised in the SCNE in relation to financial instruments include:

Financial instruments income/(expense)	Note	2010-11	2009-10
		£m	£m
Financial guarantee fees	10.1	1,339	1,355
RBS contingent capital fees	10.1	320	80
APS withdrawal fee income	10.1	-	2,500
Underwriting fees	10.1	-	266
Interest income from loans and other dividend income	10.1	624	950
Fair value adjustments of APS derivative	9.1	1,800	200
Fair value adjustments of BEAPFF derivative	9.1	10,587	(87)
Net gain on forward contract to buy ordinary shares	9.1	-	6
Gains/(losses) due to hedging ineffectiveness	10.1	(85)	20
Impairment of financial assets	9.1	(942)	(109)
Amortisation of loans	10.1	149	137
Interest expenditure	9.1	-	(1)
Total		**13,792**	**5,317**

In addition to the income and expense recognised directly in the SCNE detailed above, APS fees of £700 million were received from RBS. These fees were recognised against the fair value of the APS derivative and are not recognised directly in the SCNE.

25.4 Financial risk management and financial risk factors

HM Treasury has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. The financial services interventions expose it to a variety of financial risks: market risk, credit risk and liquidity risk. In return for taking on financial risk, HM Treasury charges fees to institutions participating in interventions, as detailed in note 25.3.

Integral to HM Treasury's approach to financial risk management has been the design of the interventions and the terms and conditions imposed. Through the design of the interventions and their subsequent management, HM Treasury seeks to minimise the overall fiscal risk to the public sector while maximising taxpayer value within the confines of this mandate. For further details, see note 29 - 39 on the background to financial stability schemes and interventions.

The HM Treasury Board is ultimately responsible for risk management and HM Treasury's overall risk management programme. The risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on HM Treasury's financial performance. Financial risks are continually monitored and evaluated through normal management processes and form a core part of day-to-day operations for HM Treasury's policy teams and sub-committees.

25.5 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: foreign exchange risk, price risk and interest rate risk.

The sensitivity analysis in the following sections relate to the position as at 31 March 2011 and 31 March 2010.

(i) Foreign exchange risk

HM Treasury's risk to foreign currency volatilities in respect of the CGS are managed through hedging activity except for the financial guarantee liabilities. The foreign currency fee income receivable is accounted for as a cash flow hedge item and the associated forward currency contract derivative is accounted for as a cash flow hedge instrument. The combination forms a cash flow hedge relationship. The forward matures on the date of receipt of foreign currency income.

At 31 March 2011, the fair value of the CGS foreign currency fee income receivable is £725 million (£1,564.5 million in 2009-10) and the fair value of the forward contract derivative net asset is £37 million (£0.3 million net liability in 2009-10).

At 31 March 2011, the value of the hedging reserve was £19 million (£1.4 million 2009-10). During the term of the hedge relationship, the hedge is considered effective.

The financial guarantee liabilities within the CGS scheme represent the potential outflow of cash in the event of a default. As the timing of when a default event will occur and the amounts payable are not known, these exposures are not hedged.

As at 31 March 2011, the sterling equivalent of the foreign currency financial guarantee liabilities under CGS is £619.9 million.

The table below shows the effect of a 10 and 25 per cent strengthening/(weakening) on the financial guarantee liability position of the foreign exchange rate (relative to £ sterling) on the SCNE.

At 31 March 2011 (Sterling equivalent £ millions)	CGS-Financial guarantee liabilities	Sensitivity Analysis			
		+10%	+25%	-10%	-25%
USD	383	38	96	(38)	(96)
EUR	137	14	34	(14)	(34)
CHF	-	-	-	-	-
AUD	18	2	5	(2)	(5)
JPY	81	8	20	(8)	(20)
Total	**619**	**62**	**155**	**(62)**	**(155)**

At 31 March 2010 (Sterling equivalent £ millions)	CGS-Financial guarantee liabilities	Sensitivity Analysis			
		+10%	+25%	-10%	-25%
USD	833	83	208	(83)	(208)
EUR	337	34	84	(34)	(84)
CHF	2	-	1	-	(1)
AUD	36	4	9	(4)	(9)
JPY	117	12	29	(12)	(29)
Total	**1,325**	**133**	**331**	**(133)**	**(331)**

Foreign exchange exposures within the APS are not hedged. This decision has been made based on the low likelihood of payouts being made under the Scheme and the acceptable level of foreign exchange risk on an individual payout. See note 25.5.1 for a sensitivity analysis of foreign exchange risk within the APS.

(ii) Price risk

HM Treasury is exposed to price risk for the equity securities it holds as available-for-sale assets. No market exists for the remaining investments, which are primarily other Government bodies, some of which are never intended for sale. Such investments are accounted for at historical cost or net asset value and thus not exposed to price risk.

Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group (LBG) and Royal Bank of Scotland (RBS) are listed on the London Stock Exchange. In addition, RBS' B-shares are considered to be equivalent in market value to RBS's ordinary shares. Sensitivity analysis for the RBS dividend access share is given separately in note 25.5.3.

The analysis below shows the SCNE and equity impact of a 10 per cent and 25 per cent increase or decrease in the market price of investments in RBS and LBG, excluding the RBS dividend access share. These variances were considered reasonably possible as at the reporting date.

		2010-11		2009-10
	SCNE	Equity	SCNE	Equity
	£m	£m	£m	£m
Increase of 10 per cent	341	4,961	452	4,531
Increase of 25 per cent	341	12,912	452	12,005
(Decrease) of 10 per cent	(7,200)	1,899	(5,761)	778
(Decrease) of 25 per cent	(11,747)	(1,506)	(10,446)	(2,010)
Holding value of the shares at 31 March		**32,209**		**34,774**

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of fluctuations on future cash flows arises on variable rate loans. The table below shows the effect of movements in LIBOR or Bank of England Base Rate as appropriate, considered reasonably possible at the reporting date, on the SCNE for variable rate loans.

Impact on SCNE	2010-11	2009-10
	£m	£m
Increase 50 bps[1]	3	4
Increase 100 bps	6	8
(Decrease) 50 bps	(3)	(4)
(Decrease) 100 bps	(6)	(8)
Variable rate interest receivable in year	**626**	**814**

[1] 'bps' equals basis points, where 100 basis points equals one per cent.

The risk of fluctuations in fair value arises on fixed interest rate and zero interest loans. As at the reporting date, HM Treasury has not provided any loans at a fixed interest rate and therefore if LIBOR or the Bank of England Base Rate were to vary by the degree considered reasonably possible above, there would be no impact on the SCNE.

For statutory debt, where HM Treasury does not receive any interest, an increase in market interest rates would have the effect of decreasing the underlying fair value of the loans. In accordance with the FReM, the discount rate applied to statutory debt is the higher of 3.5 per cent and the rate intrinsic to the financial instrument and therefore fair value changes would only be recognised in HM Treasury's Resource Accounts if market interest rates exceeded 3.5 per cent. If market interest rates were to increase to 4 per cent, the fair value of the statutory debt loans would decrease by £98 million and if market interest rates were to increase to 4.5 per cent, the fair value of statutory debt loans would decrease by £192 million.

25.5.1 Market risk and sensitivity analysis relating to APS derivative

The value of the APS is subject to changes in market factors, primarily credit spreads, foreign exchange rates (in particular USD and EUR) and interest rates. Changes in credit spread impact the implied loss in the asset pool and thus the value of the APS protection. Changes in foreign exchange rates impact the GBP value of potential losses that are denominated in foreign currencies. Changes in interest rate impact the present value of future cash flows due to both fees and protection payments.

The sensitivity of the APS value to the specified changes in these market factors is summarised below.

Risk Factor	Increase in APS Liability		Decrease in APS Liability	
	Factor	£m	Factor	£m
Credit spreads (absolute moves)	+10bps	29	-10 bps	(29)
Credit spreads (relative moves)	+10%	57	-10%	(54)
Foreign exchange rates (positive for strengthening GBP)	-1%	13	+1%	(12)
Interest rate (LIBOR)	-10bps	1	+10bps	(1)

25.5.2 Market risk and sensitivity analysis for the BEAPFF derivative

Market risk in the BEAPFF's asset portfolio arises as a natural consequence of its policy objectives, principally through the re-pricing of its assets as a result of changes in market interest rates. Interest rate risk is monitored in the form of 'delta', which is the change in valuation from a 1 basis point increase or decrease in market interest rates. The delta at 31 March 2011 was £170 million (31 March 2010: £177 million).

25.5.3 Market risk and sensitivity analysis for the Dividend Access Share (DAS)

The valuation of the DAS is based on estimates of the future dividends that may be paid. The dividend right expires when the RBS share price equals or exceeds 65p per share over a certain period. The financial model therefore estimates the dividends paid before this trigger is reached, and then discounts these expected dividends to establish a present value.

The value of the DAS decreases as the underlying share price goes up, as this increases the likelihood of the share price reaching 65p and dividend payments consequently ending. The valuation is also sensitive to the volatility of the RBS share price and the discount rate used in the financial model. The table below provides a sensitivity analysis for a range of scenarios considered plausible at 31 March 2011:

Input to the model	Increase by	Increase / (Decrease) in fair value £m	Decrease by	Increase / (Decrease) in fair value £m
Share price sensitivity	10p	(1,043)	10p	1,253
Credit spread sensitivity	100bps	(323)	100bps	388
Volatility sensitivity	5%	162	5%	(182)
First dividend payment date	1 year (to 2014)	(606)	1 year (to 2012)	874

25.6 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss to HM Treasury by failing to discharge an obligation. The Treasury is exposed to credit risk through schemes entered into by the Government. The Treasury's credit risk arises from loans issued to financial institutions, financial guarantees, and the balance receivable under forward contracts. See notes 29 to 39 for a description of the individual investments and schemes and their related exposures.

The table below shows the credit rating and utilisation of credit facilities of HM Treasury's most significant counterparties at the reporting date. These credit ratings are produced by Standard and Poor's and will reflect improvements in the credit worthiness of UK financial institutions as a result of Government interventions in providing loans and advances or financial guarantees.

As at 31 March	Credit rating	2010-11 Exposure £m	2010-11 Total facility £m	2009-10 Exposure £m	2009-10 Total facility £m
Loans and advances to financial institutions:					
Northern Rock (Asset Management) plc	A	21,593	25,470	22,970	25,470
Bradford & Bingley plc	A-	10,697	13,147	10,687	13,137
FSCS[1]	AAA	18,805	19,360	19,327	19,875
Depositors' and Investors' Guarantee Fund	BBB-	1,951	1,951	2,246	2,246
Financial guarantees fees receivable:					
Northern Rock (Asset Management) plc	N/A – In wind down	104	-	135	-
Bradford & Bingley plc	N/A – In wind down	257	-	423	-
CGS[2]	AAA to A-	1,107	-	2,428	-

[1] Government rating applied, as it is a government entity.
[2] The CGS guarantees specified debt issuances by a number of institutions, each with their own credit rating. The range of credit ratings is given above.

HM Treasury manages credit risk in relation to its investments in Northern Rock (Asset Management) plc and Bradford & Bingley plc through UK Financial Investments Limited (UKFI). The business plans of both Northern Rock (Asset Management) plc and Bradford & Bingley plcproject full repayment of loans from HM Treasury. On behalf of HM Treasury, UKFI monitors the implementation of agreed business plans and reports its findings to HM Treasury. Both HM Treasury and UKFI are satisfied with the planned repayment schedule, and, to date, interest and principal payments have been received in line with the business plans.

In addition, as security on the loan to Northern Rock (Asset Management) plc, HM Treasury holds a floating charge over the entire company's assets including its mortgage pool. As at 31 December 2010, the fair value of the company's assets was £66,276 million. HM Treasury holds no other security over its loan assets.

HM Treasury provides a loan facility to FSCS to repay depositors the FSCS guaranteed portion of retail debts. The loans with FSCS are anticipated to be fully recoverable. The repayments by FSCS will be made through recoveries from administrators and any shortfall will be raised through industry levies.

HM Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the amounts it paid out to depositors in respect of amounts covered by the DIGF. HM Treasury continues to assume a full recovery of funds. For further details, see note 36.

Financial institutions participating in the CGS pay fees for each of their guaranteed debt issuances. There has been no non-payment of fees during the operation of the scheme to date and the fees are assumed to be fully recoverable. For further details on the CGS, see note 39.1.

In addition to the above, HM Treasury also has statutory debts with various institutions over which it has limited control because they are in administration. The recoverability of these loans is assessed by the Administrators. The only exception to this is the statutory debt to Bradford and Bingley plc which is managed by UKFI.

Credit risk ratings for BEAPFF assets

The table below represents an analysis of debt securities and commercial paper held by BEAPFF by credit risk groupings, based on external rating agency designation or equivalent at 31 March 2011.

Sector concentration of assets

Sector	UK Government £m	Corporate £m
Debt securities	-	-
Bonds	194,844	1,356
Secured commercial paper	-	30
Total	**194,844**	**1,386**

Credit risk ratings for bonds

Credit risk rating	Nominal Holdings £m	% of Holdings
AAA	194,844	99.31
AA	93	0.05
A	547	0.28
BBB	716	0.36
Total	**196,200**	**100**

Credit risk ratings for commercial paper

Credit Risk Rating	Nominal Holdings £m	% of Holdings
A1/P1/F1	30	100
Total	**30**	**100**

25.7 Impairment of financial instruments

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date, based on objective evidence of impairment (see accounting policy note 1.18.4).

In-year and cumulative impairment charges for financial instruments are detailed in the table below:

Impairments as at 31 March	2008-09 Impairments charged to the SCNE £m	2009-10 Impairments charged to the SCNE £m	2010-11 Impairments charged to the SCNE £m	2010-11 Cumulative impairments charged to the SCNE £m
Loans and receivables	(1,618)	326	(395)	(1,688)
Available-for-sale financial instruments	(17,308)	(452)	(553)	(18,313)
Financial stability provision utilised	-	17	6	23
Total	**(18,926)**	**(109)**	**(942)**	**(19,977)**
Financial stability provision created	(295)	(39)	(2)	(336)
Financial stability provision released	-	278	31	309
Total impairment (charge)/credit to the SCNE	**(19,221)**	**130**	**(913)**	**(20,004)**

The in-year impairment charge of £395 million for loans and receivables comprises £319 million for the loan to the Depositors' and Investors' Guarantee fund (see note 2.6) and £86 million for statutory debt. Of the statutory debt impairment, £104 million is due to the irrecoverability of interest and this has been partly offset by improvements in the recoverability of principal amounts of £18 million. Of the cumulative impairment of £1,380 million to statutory debt, £1,153 million is due to the irrecoverability of interest and £227 million is due to irrecoverability of the loan principal.

The following assets (comprised solely of aged trade receivables) are past due as at 31 March 2011, but have not been impaired as they are expected to be fully recoverable:

Assets past due but not impaired as at 31 March	2010-11	2009-10
	£m	£m
Past due up to three months	3.62	8.80
Past due three months to six months	0.03	-
Past due over six months	-	0.04
Total	**3.65**	**8.84**

25.8 Liquidity risk

Liquidity risk is the risk that HM Treasury is unable to meet its payment obligations associated with its financial liabilities as they fall due.

HM Treasury's liquidity management includes:

- monitoring cash flows to ensure that daily cash requirements are met; and
- re-assessing the net cash requirement on a regular basis and reporting to Parliament as part of the Estimates process.

The table below presents the undiscounted cash flows payable by HM Treasury under non-derivative and derivative financial liabilities by remaining contractual maturities at the reporting date. Liabilities disclosed in the table are the contractual undiscounted cash flows. Foreign exchange forward contracts will be settled on a gross basis.

				2010-11	2009-10
Group	Up to 3 months	3-12 months	Over 1 year	Total[3]	Total
	£m	£m	£m	£m	£m
Non derivative liabilities:					
Trade and other payables[1]	1,236	-	134	**1,370**	1,311
Provisions	1	503	994	**1,498**	4 1
Derivative Liabilities:					
APS[2]	-	-	100	**100**	1,200
BEAPFF[4]	-	-	-	**-**	87
Forward currency contracts held for hedging:					
- Outflow	59	136	8	**203**	657
- Inflow	56	128	7	**191**	615

[1]Trade and other payables exclude deferred income relating to contingent capital fees as this liability will not result in an outflow of cash.

[2]The earliest that any payment would be made to RBS under the APS is two years after the first loss has been exceeded. For liquidity reporting purposes we have recorded the fair value of £0.5 billion in the "Over 1 year" category. Given the short time scales involved and the low interest rate environment there is no material difference between discounted and undiscounted cash flows.

[3]The total amount represents the maximum potential liabilities should a default occur on the reporting date. However, as at this date the risk occurrence of default is considered to be nil.

[4] The BEAPFF derivative is an asset in 2010-11.

In addition to the financial liabilities shown above, HM Treasury has a maximum exposure under financial liabilities of £326.4 billion. For further details on contingent liabilities, see note 27.

26. Reconciliation of working capital movements for the purpose of the net cash requirement and the Cash Flow Statement

Core Treasury

	Note	2010-11 Core Treasury	2009-10 Core Treasury £000	Movement Core Treasury £000
Supply financed inventories (finished coins)	18	9,836	6,674	3,162
Supply financed receivables due within one year	17.2.1	30,378	22,607	7,771
Supply financed receivables due after one year	17.2.1	3,746	1,318	2,428
Supply financed payables due within one year	20.1.1	31,196	39,651	8,455
Supply financed payables due after one year	20.1.1	3,333	3,484	151
Supply financed working capital movement for the net cash requirement	6			**21,967**
Inventory	18	28	104	(76)
Receivables for income that will be surrenderable to the Consolidated Fund within one year	17.2.1	1,547,400	2,028,702	(481,302)
Receivables for income that will be surrenderable to the Consolidated Fund over one year	17.2.1	424,143	1,522,142	(1,097,999)
Deferred income not passing through SCNE	20.1.1	(240,000)	(240,000)	-
Financial guarantee liabilities	20.1.3	(1,540,092)	(2,799,366)	1,259,274
Adjust for capital expenditure accruals	20.1.1	1,892	2,552	(660)
Working capital movement for the Cash Flow Statement				**(298,796)**

Group

	Note	2010-11 Group £000	2009-10 (Restated) Group £000	Movement Group £000
Supply financed inventories (finished coins)	18	9,836	6,674	3,162
Supply financed receivables due within one year	17.2.1	35,131	24,482	10,649
Supply financed receivables due after one year	17.2.1	3,879	1,325	2,554
Supply financed payables due within one year	20.1.1	36,573	48,113	11,540
Supply financed payables due after one year	20.1.1	5,044	6,643	1,599
Supply financed working capital movement for the net cash requirement	6			**29,504**
Inventory	18	28	104	(76)
Receivables for income that will be surrenderable to the Consolidated Fund within one year	17.2.1	1,547,400	2,028,702	(481,302)
Receivables for income that will be surrenderable to the Consolidated Fund over one year	17.2.1	424,143	1,522,142	(1,097,999)
Deferred income not passing through SCNE	20.1.1	(240,000)	(240,000)	-
Financial guarantee liabilities	20.1.3	(1,540,092)	(2,799,366)	1,259,274
Adjust for capital expenditure accruals	20.1.1	2,055	3,585	(1,530)
Working capital movement for the Cash Flow Statement				**(292,129)**

The inventories movement of £76,000 (non-supply) has been excluded from the working capital movement for the net cash requirement but is included in the working capital movement for the Cash Flow Statement.

27. Contingent liabilities

27.1 Contingent liabilities disclosed under IAS 37

Northern Rock plc and Northern Rock (Asset Management) plc

HM Treasury has guaranteed indemnities provided by Northern Rock plc and Northern Rock (Asset Management) plc for its new directors against liabilities and losses incurred in the course of their actions whilst both entities are in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has confirmed to the Financial Services Authority (FSA) its intention to take appropriate steps (should they prove necessary) to ensure that Northern Rock (Asset Management) plc will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are estimated to be £1.6 billion.

Bradford & Bingley plc (B&B)

HM Treasury has guaranteed indemnities provided by B&B for the directors appointed post public ownership against liabilities and losses incurred in the course of their actions whilst the company is in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has confirmed to the FSA its intention to take appropriate steps (should it prove necessary) to ensure that B&B will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are the minimum regulatory capital requirements as defined by the FSA which may vary as circumstances demand.

United Kingdom Asset Resolution plc (UKAR)

HM Treasury has guaranteed indemnities provided by UKAR for its directors against liabilities and losses incurred in the course of their actions whilst the entity is in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

Royal Bank of Scotland (RBS)

To ensure that RBS is properly and robustly secured in a downturn, HM Treasury is making available £8 billion of contingent capital to RBS in return for a premium of 4 per cent per annum. This commitment is in place for 5 years, until 22 December 2014, but can be ended early by the bank with the consent of the Financial Services Authority. The contingent capital would, if drawn down, be injected in tranches in the form of B-shares, should the core tier one capital ratio of RBS fall below 5 per cent. Maximum potential liabilities under this intervention are estimated to be £8 billion.

Special Liquidity Scheme (SLS)

HM Treasury has indemnified the Bank of England for losses it incurs through the operation of the SLS. The SLS allow banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills. Payment under the scheme would only arise if the capital losses exceed any surplus accruing to the Bank of England over the duration of the scheme. Treasury bills lent under the SLS totalled £71 billion as at end March 2011 (£91 billion as at end of February 2011, per Bank of England's 2010-11 accounts). Maximum potential liabilities under this intervention are estimated to be £71 billion.

Infrastructure Finance Unit Limited (IFUL)

HM Treasury has guaranteed indemnities provided by IFUL for its directors against liabilities and losses incurred in the course of their actions. Maximum potential liabilities under this intervention are considered unquantifiable.

United Kingdom Financial Investments Limited (UKFI)

HM Treasury has guaranteed indemnities provided by UKFI for its directors against liabilities and losses incurred in the course of their actions as directors. Maximum potential liabilities under this intervention are considered unquantifiable.

Bank of England Asset Purchase Facility Fund Limited (BEAPFF)

HM Treasury has guaranteed indemnities provided by the BEAPFF for its officers and directors against liabilities and losses incurred in the course of their actions in relation to the operation of the Asset Purchase Facility. Maximum potential liabilities under this intervention are considered unquantifiable.

Bradford & Bingley pension indemnity

The Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 requires HM Treasury to give a guarantee or to make other arrangements for the purposes of securing that the assets of the remaining section of the Bradford & Bingley Pension Scheme are sufficient to meet its liabilities. This "remaining section" comprises the whole Scheme other than the portion relating to service with Bradford & Bingley International; responsibility for that latter part in effect transferred to Abbey in September 2008. HM Treasury has therefore guaranteed to pay or procure the payment of any benefit amount which falls due from the remaining section at a time when there are insufficient assets to pay that amount. The size of the contingent liability is £185.1 million as at 31 December 2010, based on the most recent published accounts of Bradford and Bingley.

Barlow Clowes

HM Treasury continues to indemnify the liquidators and receivers of the collapsed Barlow Clowes group of companies pursuant to the deeds of indemnity dated 3 April 1991 and 29 March 1994. Maximum potential liabilities under this intervention are unquantifiable.

Compensation Schemes

In accordance with Section 5 of the Banking (Special Provisions) Act 2008, a Compensation Scheme has been established by the Northern Rock plc Compensation Scheme Order 2008. Under the Scheme an independent valuer was appointed to assess what compensation, if any, is payable by HM Treasury to former shareholders of Northern Rock plc and others. On 30 March 2010 the valuer issued his assessment that no compensation is payable. Under the Order any affected party may request the valuer to reconsider his assessment, and may refer his revised assessment to the Financial Services and Markets Tribunal. The valuer issued a revised assessment notice on 1 October 2010 upholding his view that the amount payable to former Northern Rock shareholders is nil. A number of former shareholders who disputed the assessment referred the case to the Upper Tribunal where a hearing took place between 31 May and 6 June 2011. The Tribunal's decision has not yet been issued. Maximum potential liabilities under this intervention are considered unquantifiable.

In accordance with Section 5 of the Banking (Special Provisions) Act 2008, a Compensation Scheme has been established by the Bradford & Bingley plc Compensation Scheme Order 2008. Under the Scheme an independent valuer was appointed to assess what compensation, if any, is payable by HM Treasury to former shareholders of Bradford and Bingley and others. On 5 July

2010 the valuer issued his assessment that no compensation is payable. Under the Order any affected party may request the valuer to reconsider his assessment, and may refer his revised assessment to the Financial Services and Markets Tribunal. The valuer issued a revised assessment notice on 14 March 2011 upholding his view that the amount payable to former Bradford & Bingley shareholders is nil. Former shareholders and others have 28 days from the date of the revised assessment notice to refer the matter to the Upper Tribunal. Maximum potential liabilities under this intervention are considered unquantifiable.

In accordance with Section 4 of the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, HM Treasury is liable to pay to specified third parties any amount of compensation determined to be payable by the independent valuer. Maximum potential liabilities under this intervention are considered unquantifiable. Under the Order, HM Treasury is required to appoint an Appointment Panel, which is responsible for appointing an independent valuer. The Panel is also responsible for removing the independent valuer from office on the ground of incapacity or serious misconduct. HM Treasury has indemnified members of the Appointment Panel against any and all claims, losses, damages and liabilities incurred in connection with, or arising from, their membership of the Panel and the performance of the Panel's functions. Maximum potential liabilities under this intervention are considered unquantifiable.

Pool Re and Pool Re (Nuclear)

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies, owned by insurers. Their role is to provide terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption following a terrorist attack in Great Britain (excluding Northern Ireland). HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. Pool Re's total investment fund value at 31 December 2010 was £4.1 billion. In the event of losses exceeding Pool Re's or Pool Re (Nuclear)'s available resources, HM Treasury will fund the difference which will be repaid by Pool Re or Pool Re Nuclear over time. Maximum potential liabilities under this arrangement are therefore considered unquantifiable. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Royal Mint

The Royal Mint Trading Fund has a Memorandum of Understanding (MOU) arrangement with the National Loans Fund (NLF) by which it can draw down funds in the form of a financing facility, with an upper limit of £36 million. Parliamentary authority limits the overall amount of public money available to the Royal Mint at £50 million. If the Royal Mint Trading Fund was unable to meet this commitment the National Loans Fund funding conditions dictate that the amount outstanding would have to be met from within HM Treasury's DEL limit.

An indemnity similar to those given to civil servants under the Civil Service Management Code was given to the members of the board of Royal Mint Limited for the period between 16 July 2009 and 31 December 2009. The indemnity remains in place for one director who is a civil servant. Maximum potential liabilities under this code are considered unquantifiable.

Insurance Brokers' Registration Council

Under the Financial Services and Markets Act 2000 (Dissolution of Insurance Brokers Registration Council) (Consequential Provisions) Order 2001 which came in to force on 30 April 2001, all assets and liabilities of the Insurance Brokers' Registration Council (IBRC) passed to HM Treasury. HM Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity. Maximum potential liabilities under this intervention are considered unquantifiable.

27.2 Contingent liabilities not required to be disclosed under IAS 37 but included for Parliamentary reporting and accountability

In addition to contingent liabilities disclosed in accordance with IAS 37, HM Treasury discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities which have been reported to Parliament in accordance with the requirements of Managing Public Money. These comprise items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to HM Treasury entering into the arrangement.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, HM Treasury authorised the Bank of England to purchase high quality private sector assets and UK Government debt purchased on the secondary market. The Government has indemnified the Bank of England and the fund specially created to implement the facility from any losses arising out of or in connection with the facility. The maximum authorised value of purchases under the APF is £250 billion. The current fair value of assets purchased under the scheme is £196.2 billion, and a BEAPFF derivative asset of £10.5 billion is carried at fair value on the Statement of Financial Position as at the reporting date.

Asset Protection Scheme (APS)

In December 2009, RBS acceded to the APS, insuring an asset pool of £282 billion. The first £60 billion of losses within this pool is borne by RBS and 90 per cent of losses thereafter are met by HM Treasury. The value of assets covered by the pool as at 31 March 2011 was £181.2 billion. Maximum exposure to HM Treasury is estimated at £110 billion, of which a derivative liability of £0.1 billion is carried at fair value on the Statement of Financial Position at the reporting date.

Credit Guarantee Scheme

The Credit Guarantee Scheme provides a Government guarantee for new short and medium term debt issuance to eligible institutions. The Scheme became operational in October 2008 and closed to new issuance in February 2010. Maximum potential liabilities under this intervention are estimated to be £115 billion based on loan guarantees in place at the reporting date, of which a financial guarantee liability of £941.3 million is carried at fair value on the Statement of Financial Position at the reporting date.

Northern Rock plc and Northern Rock (Asset Management) plc guarantees

On 1 January 2010 HM Treasury put in place arrangements to guarantee certain retail and wholesale deposits transferred to Northern Rock plc pursuant to the restructuring of the bank. These guarantees were terminated in May 2010 and November 2010 respectively, from which point deposits are no longer guaranteed with the exception of fixed term retail deposits existing at 24 February 2010 and fixed term wholesale deposits existing at 1 January 2010, which are guaranteed to maturity. Maximum potential liabilities under this intervention are estimated to be £0.8 billion based on guaranteed deposits at the reporting date, of which a financial guarantee liability of £27.4 million is carried at fair value on the Statement of Financial Position at the reporting date.

HM Treasury also announced replacement guarantee arrangements with effect from 1 January 2010 to continue to safeguard certain borrowings and wholesale deposits held in accounts with Northern Rock (Asset Management) plc existing immediately after the transfer became effective on 1 January 2010. Maximum potential liabilities under this intervention are estimated to be £14.6 billion as at 31 March 2011, of which a financial guarantee liability of £95.5 million is carried at fair value on the Statement of Financial Position at the reporting date.

Bradford & Bingley guarantee

In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley. Maximum potential liabilities under this intervention are estimated to be £5.2 billion as at 31 March 2011, of which a financial guarantee liability of £475.9 million is carried at fair value on the Statement of Financial Position at the reporting date.

28. Losses and special payments

The Treasury Group's administration costs include £25,000 arising from forty eight claims for losses, and claims waived or abandoned.

Background to financial interventions and financial stability schemes

Notes 29 to 39 of these resource accounts provide a summary of the key events in each of HM Treasury's financial interventions, and also developments in 2010-11. The summary includes significant financial transactions and these reflect actual cash flows for loans and other interventions. For accounting purposes, HM Treasury loans for statutory debt payments are recognised on a net present value basis with adjustments made for impairment and amortisation of cost, see note 17.1 for details.

For further information on the period before 1 April 2010, please see *HM Treasury Resource Accounts: 2009-10* and *Annual Report and Accounts 2008-09.*

29. Northern Rock and Northern Rock (Asset Management) additional information

29.1 Background

On 22 February 2008, by an order made under the Banking (Special Provisions) Act 2008, the shares of Northern Rock plc (NR plc) were transferred into Temporary Public Ownership (TPO).

The Bank of England provided a loan of £18.78 billion to finance the transfer which was novated on 28 August 2008 on the same terms to HM Treasury.

On 23 February 2009, the then Government announced that Northern Rock (NR) would be restructured into two separate entities: Northern Rock plc (NR plc) and Northern Rock (Asset Management) plc (NRAM). On 28 October 2009, State aid approval for this plan was received from the European Commission and on 8 December 2009 a Transfer Order was made under the Banking (Special Provisions) Act 2008 to affect the restructuring on 1 January 2010.

On 1 January 2010 the business of Northern Rock was split between NR plc and NRAM. All customer deposits and a proportion (around 10 per cent) of the mortgage book were transferred to NR plc, a new bank offering mortgage and savings products and regulated by the Financial Services Authority (FSA). The remaining mortgages, the existing loan from HM Treasury and most wholesale funding remained in NR which was renamed NRAM. NRAM does not offer new mortgage products or hold any customer deposits and is committed to a wind down of its business. The Government's interest in both companies is managed by UK Financial Investments (UKFI).

A new loan facility structure and agreement was put in place as part of the restructuring of NR. The loan and payment in kind (PIK) balances existing under the loan as at 31 December 2009 remained with NRAM under the new loan facility agreement.

As part of the restructuring, the loan to NRAM increased on 4 January 2010 by £8.5 billion, taking the outstanding loan balance to £22.8 billion in order for NRAM to finance the difference between mortgage assets and retail and wholesale deposit liabilities that were transferred to NR plc.

On 31 December 2009, HM Treasury provided NR plc with £1.4 billion of capital support in order for the company to meet the FSA's regulatory capital requirements. HM Treasury also provided a commitment to the FSA that up to £1.6 billion in additional capital support will be provided to NRAM should that be necessary to allow it to continue to meet its regulatory capital requirements.

On 24 February 2010, following consultation with the FSA, HM Treasury announced that it intended to remove HM Treasury's temporary guarantee arrangements for retail deposits in NR plc. Consequently, these guarantee arrangements were lifted with effect from close of business on 24 May 2010. However, fixed term retail deposits existing at 24 February 2010 will continue to be covered by the guarantee arrangements until maturity.

The guarantee arrangements for wholesale deposits and borrowings of NR plc terminated on 3 November 2010 following three months notice being given in August 2010. Fixed term wholesale deposits existing at 3 August 2010 will continue to be covered by the guarantee arrangements until maturity.

Every eligible retail depositor with NR plc continues to have the first £85,000 of their deposit guaranteed by the Financial Services Compensation Scheme (FSCS), as is the case for customers of all banks and building societies in the UK authorised by the FSA to conduct the regulated activity of accepting deposits.

On 1 October 2010 NRAM and Bradford & Bingley plc were integrated under a single holding company, UK Asset Resolution (UKAR). Both companies remain as separate legal entities under UKAR, each with its own balance sheet liabilities and government support arrangements. The integration has created a solid platform for the orderly management of both companies' mortgage books helping to maximise value for the taxpayer.

29.2 Financial transactions

On 30 March 2010, the independent valuer appointed under the Northern Rock plc Compensation Scheme Order 2008, Andrew Caldwell, published his assessment of the compensation payable to former shareholders in NR plc. Mr Caldwell determined that there was no value in the shares (or right to receive shares) immediately before the transfer of Northern Rock into TPO and therefore that no compensation is payable by HM Treasury to former shareholders (and to those whose rights to receive shares were extinguished under the Northern Rock plc Transfer Order 2008).

All shareholders were given the opportunity to ask the valuer to reconsider his assessment. On 4 October 2010, after considering the requests for reconsideration, Mr Caldwell issued his Revised Assessment Notice. Mr Caldwell stated in his Revised Assessment Notice that he remains of the conclusion that no compensation is payable by HM Treasury to former shareholders of NR plc (or other affected parties). A number of former shareholders who disputed the assessment referred the case to the Upper Tribunal where a hearing took place between 31 May and 6 June 2011. The Tribunal's decision has not yet been issued.

UKFI and NR plc announced on 8 March 2011 that they had jointly appointed Deutsche Bank to act as their corporate finance advisers on exploring the options for returning NR plc to the private sector. UKFI, NR plc and their advisers will explore a wide range of options before advising the Chancellor on the disposal. No timeframe has been announced and there is no commitment to any particular option.

NR plc published its 2010 Annual Results on 9 March 2011 which showed a loss before tax of £224 million. NRAM published its 2010 Results on 31 March 2011 which showed a profit before tax of £401 million.

The gross loan as at 31 March 2011 is £21.6 billion including PIK balance of £150.7 million.

29.3 Recovery of costs and related income

As a result of the support and guarantee arrangements provided to NR, HM Treasury incurred certain costs and received certain income. Both companies (NR plc and NRAM) have agreed to reimburse HM Treasury for any expenses and costs incurred, including the professional fees incurred by HM Treasury in connection with the restructuring of NR.

The Authorities entered into a number of contracts for professional advice on its response to the financial crisis and, specifically, on NR related matters. The professional fees incurred by HM Treasury, including those relating to NR, have been included in "other administration costs" within the Resource Accounts (see note 8.3).

NR plc and NRAM pay a monthly fee in respect of existing retail and wholesale guarantee arrangements. The fee income totalled £21.6 million in 2010-11 and has been surrendered to the consolidated fund, see note 10.2.

29.4 HM Treasury's investment in NRAM & NR plc

The ordinary shares in NRAM continue to be held on HM Treasury's Statement of Financial Position at historical cost, (nil), in accordance with the Department's accounting polices (see note 1.18).

HM Treasury received ordinary shares following the capital injection of £1.4 billion in NR plc. These unquoted shares are held on the HM Treasury's Statement of Financial Position at historical cost, being the price paid, less impairment in line with HM Treasury's accounting policies (see note 1.18).

29.5 HM Treasury loan to NRAM

The interest receivable on HM Treasury's loan to NR/NRAM for 2010-11 is £167 million. This interest has been surrendered or is due to be surrendered to the Consolidated Fund, see note 10.2 for details.

HM Treasury is also providing a working capital facility (WCF) loan to NRAM with a current commitment of up to £2.5 billion to help the company with its wind down. This has not been drawn on to date. No fee is payable on the WCF unless drawn down.

HM Treasury expects the loan facilities to NRAM to be repaid in full over the period of wind down as per the business plan.

30. Bradford & Bingley additional information

30.1 Background

On 29 September 2008, in exercise of a power under the Banking (Special Provisions) Act 2008, HM Treasury transferred the shares of Bradford & Bingley plc (B&B) into public ownership. Immediately after this transfer, the retail deposits, branch network and the Isle of Man operations were transferred to Abbey National plc (Abbey). In order to facilitate this transfer, the FSCS and HM Treasury made cash payments to Abbey equal to the value of deposit liabilities. The Bank of England provided the FSCS with a loan in order to enable the FSCS to make this payment; the loan was transferred to HM Treasury in December 2008.

Total cash paid to Abbey by the FSCS and HM Treasury for the transferred retail deposit liabilities was £18.4 billion. Of this £18.4 billion, HM Treasury is liable for deposit balances in excess of £35,000, (the FSCS compensation limit at the time) which have been determined to be £2.7 billion. The FSCS is liable for the remaining £15.7 billion.

In September 2008, HM Treasury put in place guarantee arrangements to safeguard certain wholesale borrowings and deposits with B&B. For further information on these please see the HM Treasury website.

In September 2008, the Bank of England provided a Working Capital Facility (WCF) loan to B&B. The WCF was refinanced by HM Treasury on 29 December 2008 and stood at £8.6 billion as at 31 March 2011 whilst the commitment remains at £11.5 billion.

30.2 Financial transactions

On 24 June 2009, HM Treasury, on the recommendation of an independent panel, appointed Peter Clokey as independent valuer under the terms of the Bradford & Bingley plc Compensation Scheme Order 2008. The independent valuer completed his final assessment on 5 July 2010 and concluded that no compensation is payable by HM Treasury to former B&B's shareholders and bondholders.

All affected parties, including shareholders and bondholders, were given the opportunity to submit a request for the valuer to re-determine his decision. Mr Clokey published his Revised Assessment Notice on the 14 March 2011, stating that he remains of the conclusion that no compensation is payable to former shareholders of Bradford & Bingley.

Mr Clokey's Revised Assessment Notice included details of how to refer the case to the Upper Tribunal should any person affected by the determination remain dissatisfied.

On 25 January 2010, the European Commission gave State Aid approval to the restructuring plan for B&B. It also approved the guarantee arrangements for B&B's wholesale deposits and borrowings. These were announced on 29 September 2008 and will remain in place until the wind down of B&B is complete. HM Treasury receives a monthly fee in respect of the wholesale deposit guarantee arrangements.

The March 2010 Budget announced that Northern Rock (Asset Management) plc and B&B would be integrated under a single holding company. For additional details refer to note 29.1 above.

B&B published its 2010 results on 31 March 2011 which showed a profit before tax of £1.1 billion.

As at 31 March 2011, the outstanding working capital loan balance is £8.6 billion, the FSCS loan is £15.7 billion and the HM Treasury statutory debt is £2.8 billion. Following impairment and amortisation of cost on statutory debt, the net present value is £2.1 billion, see note 17.1.

30.3 Recovery of costs and related income

B&B agreed to indemnify HM Treasury for certain costs incurred as a result of the support and guarantee arrangements provided to B&B by HM Treasury. These recoveries have been accounted for as "administration income appropriated in aid'' and used to offset operational costs, see note 10.2.

B&B pay a monthly fee in respect of the wholesale deposit guarantee arrangements. The fee income totalled £32.6 million in 2010-11.

30.4 Other disclosures relating to the financing of B&B

30.4.1 HM Treasury loan to the FSCS

The FSCS pay interest on the loan from HM Treasury relating to B&B deposits. Interest accrued during 2010-11 totalled £275.9 million. This will be paid on 3 October 2011.

30.4.2 HM Treasury loan to B&B

B&B pay interest and drawdown fees on the WCF. Interest and drawdown fees received during 2010-11 totalled £169 million.

All fees and interest received from B&B have been surrendered to the consolidated fund, see note 10.2.

30.4.3 HM Treasury's investment in B&B

The ordinary shares that were brought onto HM Treasury's Statement of Financial Position when B&B entered public ownership continue to be valued at historical cost (nil) in line with HM Treasury's accounting policies (see note 1.18).

31. Royal Bank of Scotland additional information

31.1 Background

On 8 October 2008, the Government announced a recapitalisation scheme under which capital support would be made available to eligible institutions from public sector resources. As a result of the arrangement, in December 2008, HM Treasury acquired approximately £15 billion of ordinary shares plus £5 billion of preference shares in RBS.

On 19 January 2009 the Government announced its agreement with RBS to convert HM Treasury's £5 billion preference share investment into new ordinary shares.

On 26 November 2009, the Government and RBS signed binding agreements under which on 22 December 2009 the Government injected £25.5 billion of capital in the form of B shares. As a result the Government's economic ownership of RBS rose to 83.2 per cent as at 31 March 2011, including 68.4 per cent ownership of the ordinary share capital of RBS.

In addition, the Government has agreed to provide up to £8 billion of additional capital in return for B shares in the event that the bank's Core Tier 1 capital ratio deteriorates sufficiently, breaching a threshold of 5 per cent ('the Contingent Capital Commitment').

On 22 December 2009 RBS acceded to the Asset Protection Scheme (APS). Further details on the APS are included in note 39.6.

RBS published its 2010 results on 24 February 2011 which showed a loss on continuing operations of £399 million before tax.

31.2 Recovery of costs and related income

During 2010-11, RBS paid £700 million in fees for inclusion in the APS and £320 million in contingent capital fees. These fees have been surrendered to the consolidated fund, see notes 10.2 and 10.3.

32. Lloyds Banking Group additional information

32.1 Background

On 13 October 2008, under the Government recapitalisation scheme, HM Treasury acquired ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB. It also acquired preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB.

On 19 January 2009, HBOS and Lloyds TSB merged to form the Lloyds Banking Group (LBG) and this resulted in HM Treasury holding 43.4 per cent of the share capital and £4 billion of preference shares in LBG.

On 7 March 2009 the Government announced its agreement with LBG to convert HM Treasury's £4 billion preference share investment into new ordinary shares, and its intention to participate in the APS. In November 2009, LBG announced that it planned to raise sufficient capital through the market to meet the FSA's capital requirements without the need for additional support from the APS. A fee of £2.5 billion was subsequently levied on LBG for the implicit protection it received since indicating it would participate.

In June 2009 LBG shareholders approved an issue of new ordinary shares. HM Treasury holds 41.3 per cent of the ordinary share capital in LBG as at 31 March 2011.

LBG published its 2010 results on 29 March 2011 which showed a profit before tax of £281 million.

There have been no financial transactions with LBG during 2010-11.

33. Heritable additional information

33.1 Background

Heritable Bank plc (Heritable) is a UK subsidiary of Landsbanki islands hf (an Icelandic bank) and was regulated by FSA.

On 8 October 2008, by orders made under the Banking (Special Provisions) Act 2008, the majority of Heritable's retail deposit liabilities were initially transferred to Deposits Management (Heritable) Limited (DMH), a subsidiary of HM Treasury, and then subsequently to ING Direct N.V. This transfer was supported by payments of cash by HM Treasury and the FSCS to ING equal to the value of the deposit book liabilities less £1 million. The wind down of DMH was completed in 2010-2011.

Total cash paid to ING by the FSCS and HM Treasury for the transferred deposit liabilities was £547.1 million. Of this £547.1 million, HM Treasury is liable for deposit balances in excess of £50,000, which have been determined to be £89.9 million. The FSCS is liable for the remaining balances and borrowed £457.2 million from HM Treasury for the ING payment.

A small amount of Heritable's retail deposits were not transferred to ING and the FSCS paid out directly to these depositors including compensation for amounts above £50,000. The FSCS was liable for amounts up to £50,000 (the FSCS compensation limit at the time), and borrowed a further £12.5 million from HM Treasury to compensate eligible depositors. HM Treasury is liable for amounts in excess of £50,000.

Heritable is now in administration. As at 31 March 2011, the outstanding FSCS loan is £236.9 million and the HM Treasury liability is £44.2 million. Following impairment and amortisation of cost on the statutory debt, the net present value is £27.5 million, see note 17.1.

The repayments in respect of HM Treasury statutory debt are expected over the period of wind down as determined by the Administrators. The FSCS will repay the principal outstanding in accordance with a timetable to be agreed between FSCS and HM Treasury.

33.2 Recovery of costs and related income

The professional fees incurred by HM Treasury relating to Heritable are included in the total financial stability costs in note 8.3.

The interest receivable on HM Treasury's loan to the FSCS in respect of Heritable is twelve month LIBOR plus 30 bps. During 2010-11, HM Treasury has recognised £4.8 million of interest from the FSCS on the loan and this has been surrendered to the consolidated fund, see note 10.2.

The £89.9 million provided by HM Treasury to ING for retail depositors' balances in excess of £50,000 is not accruing any interest. It is recoverable from the administration process for Heritable.

To date, the administrator for Heritable has paid out dividends to FSCS and HM Treasury totalling £278.5 million. A proportion (£232.7 million) of this was used by the FSCS to repay part of the loan with HM Treasury and the remaining amount (£45.8 million) was used to reimburse HM Treasury for its statutory debt payments for deposit balances in excess of

£50,000. Of this total, in 2010-11 the administrator paid out dividends to FSCS and HM Treasury totalling £84.3 million. Further dividends are expected over the period of wind down as determined by the administrators.

34. Kaupthing Singer & Friedlander additional information

34.1 Background

On 8 October 2008, by an order made under the Banking (Special Provisions) Act 2008, the retail deposit liabilities of Kaupthing Singer and Friedlander ('KSF') were initially transferred to Deposits Management (Edge) Limited, a subsidiary of Bank of England, and subsequently to ING Direct N.V (ING). In order to facilitate this transfer the FSCS and HM Treasury made cash payments to ING equal to the value of the deposit liabilities less £5 million (the amount paid by ING for the deposit book).

The FSCS and HM Treasury paid £2.7 billion to ING to fund the transfer of deposit liabilities from KSF to ING. Of this £2.7 billion, HM Treasury is liable for deposit balances in excess of £50,000, which have been determined to be £0.2 billion. The FSCS is liable for the remaining balances and has borrowed £2.5 billion from HM Treasury for the ING payment. HM Treasury's liability for deposits over £50,000 is not accruing any interest.

The FSCS is paying out eligible retail deposits in KSF non-'Edge' products directly. A further loan of £530 million was made available to the FSCS to enable payments to commence, of which the FSCS has repaid £171.1 million. Following due diligence conducted by the FSCS, the remaining £358.9 million has been split with £67.8 million deemed as a loan to the FSCS for compensation up to £50,000 and £291.1 million deemed as a liability of HM Treasury for payouts to depositors with balances in excess of £50,000.

As at 31 March 2011, the outstanding FSCS loan is £1.2 billion and the HM Treasury liability is £0.24 billion. Following impairment and amortisation of cost on HM Treasury liability, the net present value is £0.1 billion, see note 17.1.

The repayments in respect of HM Treasury statutory debt are expected over the period of wind down as determined by the Administrators. The FSCS will repay the principal outstanding in accordance with a timetable to be agreed between FSCS and HM Treasury.

34.2 Recovery of costs and related income

The professional fees incurred by HM Treasury relating to KSF are included in the total financial stability costs in note 8.3.

The interest receivable on HM Treasury's loan to the FSCS in respect of KSF is twelve month LIBOR plus 30bps. During 2010-11, HM Treasury has recognised £25.3 million of interest from the FSCS on the loan and this has been surrendered to the consolidated fund, see note 10.2.

The administrator for KSF has paid out dividends to FSCS and HM Treasury totalling £1.6 billion. A proportion (£1.3 billion) of this was used by the FSCS to repay part of the loan with HM Treasury and the remaining amount (£0.3 billion) was used to reimburse HM Treasury for its statutory debt payments for deposit balances in excess of £50,000. In 2010-2011 the administrator paid out dividends to FSCS and HM Treasury totalling £0.5 billion.

Further dividends are expected over the period of wind down as determined by the administrators.

35. London Scottish Bank additional information

35.1 Background

On 30 November 2008, the High Court made an Administration Order in relation to London Scottish Bank plc (LSB) and administrators were appointed. HM Treasury will meet payments above the £50,000 threshold for eligible depositors. HM Treasury's liability for deposits above £50,000 is not accruing any interest. It is recoverable from the administration process for LSB.

As at 31 March 2011, the outstanding FSCS loan is £222.6 million and the statutory debt is £27.4 million. Following impairment and amortisation of cost on statutory debt, the net present value is £11 million, see note 17.1.

The repayments in respect of HM Treasury's statutory debt are expected over the period of wind down as determined by the Administrators.

The FSCS will repay the principal outstanding in accordance with a timetable to be agreed between FSCS and HM Treasury.

35.2 Recovery of costs and related income

The professional fees incurred by HM Treasury and specifically related to LSB are included in total financial stability costs in note 8.3.

The undrawn element of the loan facility attracts a monthly commitment fee payable by the FSCS to HM Treasury. On 31 March 2011, the remaining undrawn amount on the total facility is £20 million.

The interest receivable on HM Treasury's loan to the FSCS in respect of LSB is twelve month LIBOR plus 30bps. During 2010-11, HM Treasury has recognised £3.5 million of interest from the FSCS on the loan and this has been surrendered to the consolidated fund, see note 10.2.

36. Icesave additional information

36.1 Background

On 8 October 2008, the Financial Services Authority (FSA) concluded that Icesave, the UK branch of Landsbanki, was in default for the purposes of the FSCS.

HM Treasury provided the FSCS with £3.9 billion funding in 2008-2009 and £520 million between 1 April 2009 and 31 March 2010 to allow it to make payouts to UK retail deposit holders at Icesave. HM Treasury provided a further £32.4 million between 1 April 2010 and 31 March 2011 so that it could continue to make payouts, taking the total payout to £4.5 billion as at 31 March 2011.

As at 31 March 2011, of the £4.5 billion total funding provided, about £2.3 billion is the liability of the Icelandic authorities for payouts up to €20,887 per depositor in accordance with the EU Deposit Guarantee Scheme Directive; £1.4 billion falls to the FSCS for compensation for amounts above €20,887 and below £50,000; and £0.8 billion represents compensation by HM Treasury for amounts above £50,000.

The FSCS have a claim in the administration of Icesave in respect of the payments they have made to depositors.

HM Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the amounts it paid out to depositors in respect of amounts covered by the Depositors' and Investors' Guarantee Fund (DIGF). A loan agreement that would have had that effect was put to a referendum of the Icelandic people on 9 April 2011 and was rejected. The matter is now likely to be referred by the European Free Trade Association (EFTA) Surveillance Authority to the EFTA Court. HM Treasury continues to assume a full recovery of funds.

As at 31 March 2011, the outstanding FSCS loan is £1.4 billion, HM Treasury's liability is £0.8 billion and the DIGF loan is £2.3 billion. Following impairment and amortisation of cost, the Net Present Value of HM Treasury's liability is £0.6 billion and the Net Present Value of the DIGF loan is £2 billion, see note 17.1.

36.2 Recovery of costs and related income

The professional fees incurred by HM Treasury relating to Icesave are included in the total financial stability costs in note 8.3.

36.3 HM Treasury loan to the FSCS and DIGF and HM Treasury statutory debt

The interest receivable on HM Treasury's loan to the FSCS in respect of the FSCS liability for payments in relation to Icesave is one-year LIBOR plus 30bps. During 2010-11, HM Treasury has recognised £24.9 million of interest from the FSCS on the loan which will be paid on 3 October 2011.

Interest is receivable from Icelandic authorities in respect of the loan provided to the DIGF for payouts up to €20,887 per depositor.

HM Treasury's liability for deposits above £50,000 is not accruing any interest. It is recoverable from the administration process for Icesave.

The undrawn element of the loan facility attracts a quarterly commitment fee payable by the FSCS and DIGF to HM Treasury. Following due diligence work carried out by the FSCS on 31 March 2011, the remaining undrawn amount on the total facility is £25 million.

37. Dunfermline Building Society additional information

37.1 Background

On 28 March 2009, the Financial Services Authority, after consultation with HM Treasury and Bank of England, concluded that Dunfermline Building Society (DBS) met the general conditions for entry into Special Resolution Regime under the Banking Act 2009. On 30 March 2009 the Bank of England made a transfer instrument transferring part of Dunfermline's business to Nationwide and Dunfermline's social housing loans book to a bridge bank (wholly owned by the Bank of England). A court order was made that day placing DBS into building society special administration.

HM Treasury made a payment of £1.6 billion to Nationwide on 30 March 2009 in order to match the difference between the retail and wholesale deposit liabilities and the mortgage assets transferred from DBS to Nationwide.

A liability against DBS was created in the Transfer Instrument made by the Bank of England on 30 March in respect of the payment HM Treasury made to Nationwide, therefore HM Treasury is a creditor in the administration. Any amount not recovered from the administration may be recovered from the FSCS under section 214B of the Financial Services and Markets Act 2000 (subject to a statutory cap on the amount that may be recovered from the FSCS).

To date, the administrator for Dunfermline has paid out dividends to HM Treasury totalling £427.5 million. Further dividends are expected over the period of the administration as determined by the administrators.

On 23 December 2009 HM Treasury announced that an independent panel had selected and appointed Ian Burns as the independent valuer to determine any compensation to be paid in accordance with the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009. The valuer's decision will determine the statutory FSCS cap; the amount of money the FSCS will be required to pay towards the costs HM Treasury paid for the Resolution of Dunfermline Building Society.

As at 31 March 2011, HM Treasury's claim in the administration stood at £1.1 billion and is not accruing any interest. Following impairment and amortisation of cost, the net present value is £1 billion, see note 17.1.

37.2 Recovery of costs and related income

The professional fees incurred by HM Treasury in connection with the resolution of DBS are included in total financial stability costs in note 8.3.

38. Ireland additional information

38.1 Background

On 22 December 2010 the Government agreed to provide a £3.2 billion bilateral loan to Ireland, as part of an international package of measures to provide financial assistance to Ireland.

As noted by the International Monetary Fund (IMF) in their December 2010 staff report, the aim of the international package is "to restore Ireland's banking system to health and put its public finances on a sound footing, thus renewing confidence and a return to strong, sustained growth."

The full terms of the UK bilateral loan to Ireland are set out in the loan agreement, which is available on the Parliament website.[1]

38.2 Conditions under the programme

The specific policies that the Irish Government have undertaken to implement are outlined in the Memorandum of Economic and Financial Policies agreed with the IMF and the European Commission. This document is available on the IMF's website.[2]

38.3 Disbursements under the loan

Disbursements under the loan facility will be made in 8 equal instalments after the relevant programme reviews have been approved by (as applicable) the IMF and the European Commission. The first instalment will be available following completion of the third review.

38.4 Interest rate and loan term

Each loan disbursement must be repaid in full on the date falling 7.5 years after the date on which it is made.

The rate of interest on each loan disbursement is equal to a margin of 2.29 percentage points on top of the semi-annual swap rate for Sterling swap transactions with duration of 7.5 years. The swap rate is determined at the time of each loan disbursement.

38.5 Participation in other Eurozone interventions

In addition to the bilateral loan to Ireland, the UK has continued to support the IMF through the National Loans Fund (NLF). Details on support provided to the IMF can be found in the NLF's 2010-11 accounts.

[1] www.parliament.uk.
[2] www.imf.org.

The UK is also a member of the European Financial Stabilisation Mechanism (EFSM), which provides support to all EU Member States. The Consolidated Fund is responsible for the United Kingdom's contribution to the EFSM. Details can be found in the Consolidated Fund Account 2010-11.

39. Financial stability schemes

39.1 Credit Guarantee Scheme

On 8 October 2008 the Government announced a Credit Guarantee Scheme (CGS).

The CGS commenced on 13 October 2008. The purpose of the Scheme is to help restore confidence by making available, to eligible institutions, a government guarantee of senior unsecured short and medium term debt for a fee.

The drawdown window for new issuance closed on 28 February 2010. Institutions are able to finance maturing debt already guaranteed under the scheme until April 2012, and until 9 April 2014 conditional on total scheme drawdown remaining below £83.3 billion.

As at 1 December 2010, outstanding debt issuance under the scheme stood at £115 billion.

Total income recognised in the 2010-11 Resource Accounts is £1.2 billion (2009-10: £1.6 billion).

39.2 Bank of England Asset Purchase Facility

On 19 January 2009, the Government authorised the Bank of England to create a new fund, the Asset Purchase Facility (APF). The original objective of the facility was to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the UK. On 3 March 2009, the Chancellor, Mr. Alistair Darling, authorised the Monetary Policy Committee (MPC) to use the APF for monetary policy purposes.

Facilities have been launched for purchase by the APF of: UK Government gilts; corporate bonds; commercial paper; and secured commercial paper.

At 31 March 2011, the net investment made by the APF is £199.6 billion, compared to an authorised limit of £250 billion. This is made up of asset purchases financed by the issuance of central bank reserves of £199.3 billion and by the issue of Treasury Bills and the DMO's cash management operations of £0.3 billion.

The Bank of England has published APF accounts for the year ended February 2011. For further details see the Bank of England's website.[3]

39.3 The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is an independent body established under the Financial Services and Markets Act 2000 (FSMA) to protect the rights of consumers. The FSCS is a scheme which covers business conducted by firms authorised by the Financial Services Authority (FSA), the independent body set up by Government to regulate financial services in the UK. Other financial institutions (authorised by their home state regulator) that operate in the UK may also be covered by the FSCS in certain circumstances.

The loans made by HM Treasury to the FSCS were subject to adjustments following FSCS due diligence during the financial year on deposit amounts. The outcome of this due diligence

[3] www.bankofengland.co.uk.

resulted in reallocation of outstanding balances between FSCS loans and HM Treasury statutory debt.

The table below shows the loans and statutory debts (undiscounted) made by HM Treasury to the FSCS up to 31 March 2011:

	B&B £000	Heritable £000	KSF £000	LSB £000	Icesave £000
FSCS loan balance as at 01 April 2010	15,658,945	307,354	1,766,936	180,784	1,412,809
Draw downs	-	-	-	44,229	36,469
Increase/(decrease) in FSCS loan balance following due diligence [1]	-	-	(40,551)	(2,380)	(11,338)
FSCS loan repayments	-	(70,417)	(477,574)	-	-
FSCS loan balance as at 31 March 2011	**15,658,945**	**236,937**	**1,248,811**	**222,633**	**1,437,940**
HM Treasury statutory debt as at 01 April 2010 (before impairment)	2,761,702	58,005	291,248	19,216	772,983
Draw downs	-	-	-	5,772	12,302
Increase /(decrease) in statutory debt following due diligence	-	-	40,551	2,380	3,445
Statutory debt repayments during the year	-	(13,854)	(92,480)	-	-
HM Treasury statutory debt balance as at 31 March 2011	**2,761,702**	**44,151**	**239,319**	**27,368**	**788,730**
Facility remaining undrawn at 31 March 2011[2&3]	**-**	**-**	**150,000**	**-**	**405,000**

[1] Adjusted to allocate a portion of the loan to the DIGF so that the loan balance relates only to FSCS payouts for amounts above €20,887 and less than £50,000.

[2] The facility remaining represents unspent amounts under the original loan agreements. Under the revised loan agreements, with effect from 1 April 2011, KSF and Icesave undrawn loan facilities are reduced to £20 million and £25 million respectively. The loan facility for LSB has increased by £20 million with effect from 1 April 2011. This equals the undrawn loan commitment for 2011-12.

[3] These funds can be used to payout the DIGF liability as well as the FSCS and HM Treasury share of depositor compensation liabilities.

39.4 Bank of England Special Liquidity Scheme

On 21 April 2008 the Bank of England launched the Special Liquidity Scheme (SLS) to improve the liquidity position of the banking system by allowing banks and building societies to swap, for up to three years, some of their illiquid assets for UK Treasury Bills. The drawdown period closed on 30 January 2009. The assets held by financial institutions that can be used in the SLS must be high quality.

Although the drawdown window to access the SLS has closed, the Scheme will remain in place for three years, thereby providing participating institutions with continuing liquidity support and certainty. Only securities formed from loans existing before 31 December 2007 were eligible.

The Bank of England receives a fee from the participating institutions. Under the scheme, the Bank of England is indemnified by HM Treasury against any losses incurred. It is considered that the risk of any loss suffered by the Bank of England is very low. Accordingly, no provision has been made in these accounts as no call is expected to be made under the indemnity.

Since its inception until the end of the drawdown period (30 January 2009), Treasury Bills with a face value of approximately £185 billion have been lent under the SLS. The SLS has been accessed by 32 financial institutions.

As at 28 February 2011, securities with a fair value of £132 billion (2010: £229 billion) were held by the Bank of England as collateral for Treasury bills with a face value of £91 billion (2010: £165 billion) lent under the SLS. Further details on the SLS can be found on the Bank of England's website.

39.5 The Infrastructure Finance Unit

HM Treasury established The Infrastructure Finance Unit (TIFU) following the announcement on 3 March 2009 that, Government would lend to PFI projects to ensure vital PFI infrastructure projects go forward as planned despite the current financial market conditions, supporting jobs, economic activity and delivery of public services.

Infrastructure Finance Unit Limited (IFUL) was established to act as the lender of record for all transactions supported by TIFU. IFUL is wholly owned by HM Treasury.

Since then, IFUL has lent to one PFI project, committing loans of £120 million in relation to the Greater Manchester Waste Disposal Authority PFI scheme.

In October 2010, HM Treasury announced in the Spending Review 2010 that it would not provide any further funding for the company other than to meet its contractual obligations. Under the policy announced on formation of the company, its lending activities were designed to be temporary and reversible. In accordance with this policy, the company will consider the sale of its loan asset when favourable market conditions return.

39.6 Asset Protection Scheme

On 19 January 2009 the Government announced its intention to offer an Asset Protection Scheme (APS) to restore confidence in the banks and get credit flowing again, by providing participating institutions with protection against future credit losses on defined portfolios of assets in exchange for a fee. The Government protection covers 90 per cent of the credit losses exceeding the amount of the first loss, with the institution retaining the residual 10 per cent exposure.

The APS has been designed to draw a line under problems arising from impaired assets. The capital relief provided by the scheme enables capital to be redeployed to the healthier core of banks' business to attract investments and deposits and make loans to creditworthy businesses and households. HM Treasury has established the Asset Protection Agency (APA) to operate the APS at an arm's length.

On 22 December 2009, RBS acceded to the APS. Under the terms of APS, RBS is paying an annual fee in advance of £700 million for the first three years, followed by £500 million a year for the remaining term of its participation in the APS.

Exit would need to be approved by the FSA and RBS will pay a minimum exit fee. The minimum exit fee will be the larger of either £2.5 billion, or 10 per cent of the actual regulatory capital relief received by RBS while it was in the APS, less in either case annual fees already paid. To date, RBS have paid fees of £2.1 billion for inclusion in the APS.

40. Related party transactions

40.1 Core Treasury

HM Treasury in its role as custodian of the Consolidated Fund has transactions with other Government departments and Central Government bodies but those transactions are outside the scope of the Resource Accounts and are disclosed instead in the Consolidated Fund statements.

Core Treasury has had a number of transactions with other government departments and local government bodies. Most of these transactions have been with Her Majesty's Revenue & Customs, Cabinet Office, Foreign and Commonwealth Office and The City of Westminster. In addition to these, HM Treasury has had material transactions with the Financial Services Compensation Scheme.

Although the Bank of England, the Royal Mint, Northern Rock, Northern Rock (Asset Management), Bradford & Bingley, Partnerships UK, UK Financial Investments, Royal Bank of Scotland and Lloyds Banking Group fall outside the resource accounting boundary, their share capital is either wholly owned or substantially owned by HM Treasury. Payments to these bodies for services provided and the dividend payments and other income received are material and in the statement of comprehensive net expenditure. For details on the transactions with the above entities, see notes 29-39. For extracts of published accounts, see note 15.2.

40.2 UK Debt Management Office

The DMO is an executive agency of HM Treasury and has had various transactions with the following bodies who are considered to be related parties: the National Loans Fund (gilt issuance services), the Consolidated Fund (income surrenders), the Bank of England (banking services), public sector clients of the Commissioners for the Reduction of the National Debt (fund management services), the Public Works Loan Board (loan administration services), National Savings & Investments (recovery for hedging cost), the Asset Protection Agency (facilities), Independent Commission on Equitable Life Payments (facilities), Royal Bank of Scotland Group plc (shared information network service) and the Department of Energy and Climate Change (carbon emissions auction services). None of the DMO Managing Board members had any material transactions with the DMO.

40.3 Asset Protection Agency

The APA is an executive agency of HM Treasury and has had a number of transactions with other government departments, most of which have been with the DMO in relation to a service level agreement to provide facilities management and IT services. Other less significant transactions have been with Financial Services Authority, the Government Actuary's Department and the Government Car and Dispatch Agency.

The APA has had material transactions with RBS in relation to recharge of the Agency's costs.

No senior manager has undertaken any transactions that are not in the normal course of business with APA or other related parties during the year.

40.4 Senior decision makers

Until 3 June 2010, Tom Scholar, Second Permanent Secretary, was a director of Deposits Management (Heritable) Ltd (DMH). DMH was placed into members' voluntary liquidation on that date and was formally dissolved on 18 January 2011.

Julian Kelly, Group Director, Finance and Commercial, was appointed as a non-executive board member of UK Financial Investments Ltd on 10 January 2011. In this capacity he also chairs UK Financial Investments Limited's Audit Committee. He receives no remuneration for this role. Prior to Julian Kelly's appointment, Louise Tulett was a non-executive Board member of UK Financial

Investments Ltd up to 7 November 2010 and Ken Beeton acted as an interim non-executive board member between appointments.

Ministers, non-executive members of the HM Treasury Board, senior management and members of the Audit Committee of the Treasury Group have confirmed to the Accounting Officer that they do not have any transactions with related parties which are not in the ordinary course of business, or which are at preferential rates.

41. Third party assets

The third party assets relate to Residual Application Monies and Uncashed Forfeiture Refunds.

During the privatisation process, Residual Application Monies arose because many share offers were oversubscribed and all the original cheques received from subscribers were cashed. Subsequently, the monies remitted by some subscribers, along with their applications for shares, needed to be partially or wholly refunded.

Uncashed Forfeiture Refunds relate to monies received from subscribers in respect of instalment payments for shares, after the original application had been accepted. Having paid the first instalment, some of the applicants failed to pay the further instalments. Therefore, it was necessary to refund the monies received.

In both cases refund cheques were sent to subscribers, however for various reasons many of these were never cashed. Consequently the balances relating to the uncashed cheques remained as deposits in the bank accounts. These are not departmental assets and are not included in the accounts. The bank balances held at the reporting date are set out in the table below:

Monetary Assets	2009-10	Gross inflows	Gross outflows	2010-11
	£000	£000	£000	£000
Deposit Accounts	1,145	-	(8)	1,137
Total	**1,145**	**-**	**(8)**	**1,137**

42. Events after the reporting period

Reportable non-adjusting post balance sheet events include:

42.1 CGS buy back facility

On 8 June 2011, the Government announced that the Credit Guarantee Scheme for UK incorporated banks and building societies will be amended to allow institutions that have issued guaranteed debt under the Scheme to buyback and cancel the debt before the scheduled maturity date subject to certain conditions and payment of a cancellation fee. For further details see UK Debt Management Office's website.[4]

42.2 Northern Rock plc

UKFI and Northern Rock plc recently appointed Deutsche Bank as advisers to explore options for the disposal of Northern Rock plc. Following advice from UKFI and their advisers, the Chancellor has decided to pursue the sale option. This was announced in his speech at Mansion House on 15th June 2011.[5] This does not mean that other options to return Northern Rock plc to the private sector have been ruled out, but at this stage the Government believes that a sale process is most likely to generate the best value for the taxpayer and should be explored as a first option.

43. Date authorised for issue

The financial statements were authorised for issue on 13 July 2011.

[4] www.dmo.gov.uk

[5] www.hm-treasury.gov.uk/press_58_11.htm

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If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558
Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

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