HM Treasury

Whole of Government Accounts:
year ended 31 March 2019

HC 500

July 2020

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Overview and performance analysis

Overview

1.1 The Whole of Government Accounts (WGA) is a uniquely comprehensive view of the governments financial position and performance. It consolidates the UK public sector, in line with International Financial Reporting Standards.

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

1.3 The headlines for WGA 2018-19 show income of £795.6 billion (2017-18: £764.5 billion restated), expenditure of £851.8 billion (2017-18: £808.8 billion restated). After financing costs, most notably changes in the discount rate, the net income for WGA is £1.5 billion (2017-18: net expenditure £202.8 billion restated). On the Statement of Financial Position, WGA shows total assets of £2,098.8 billion (2017-18: £2,013.8 billion restated), and liabilities of £4,554.6 billion (2017-18: £4,579.2 billion restated).

1.4 As well as the income, expenditure, assets and liabilities recognised in WGA, the accounts include several other liabilities and commitments that are disclosed, but not recognised. These include capital commitments of £53.2 billion (2017-18: £54.2 billion), operating lease commitments of £21.3 billion (2017-18: £21.0 billion), PFI finance lease commitments of £38.5 billion and service charge commitments of £81.4 billion (2017-18: £39.6 billion and £86.3 billion) and other financial commitments of £59.8 billion (2017-18: £48.8 billion).

1.5 In addition, the government has several contingent liabilities. These are currently not sufficiently likely to occur to warrant recognition on the Statement of Financial Position but are disclosed. These include £80.1 billion (2017-18: £83.7 billion) of contingent liabilities that are reported under the accounting standards, and a further £297.4 billion (£318.9 billion restated) of remote contingent liabilities. As the chance of these liabilities becoming due is considered remote, the accounting standards do not require their disclosure. However, the Treasury requires government departments to disclose remote contingent liabilities through its government reporting framework.

1.6 Two major events took place after the 2018-19 financial year end. These are EU exit and the outbreak of COVID-19. Although the financial effects of these events are not recorded in WGA, this overview provides a summary of the likely financial impact where known and further information is provided in Note 32, Events after the reporting period.

Significant matters of interest

COVID-19

1.7 This has been an unprecedented period in the history of the United Kingdom. The challenges of the COVID-19 outbreak is requiring a national effort and is having a huge impact on society, the economy and public services.

1.8 Shortly after COVID-19 was declared a pandemic on 11 March 2020 the government began to make a series of announcements to support public services, workers and businesses. These measures are detailed in the NAO's publication *Overview of the UK government's response to the COVID-19 pandemic*[1] and total £124.3 billion as at 4 May 2020:

- £6.6 billion for health and social care
- £15.8 billion for other public services and the wider emergency response
- £19.5 billion for support measures for individuals
- £82.2 billion for financial support for businesses
- £0.2 billion of other support, including international aid

1.9 Out of the £124.3 billion estimation, approximately £5.5 billion are loans. The loans would normally be expected to be repaid and would most likely appear on the WGA balance sheet. This will then be subject to impairment assessments going forward.

1.10 The NAO report notes that these cost commitments do include central government's allocation of funding to local and devolved governments but do not include further spending decisions taken by local authorities and devolved administrations. It also notes that some of these commitments are for a given period of support, which may be extended and therefore lead to increased costs. This is particularly relevant for the Coronavirus Job Retention Scheme which was extended on 12 May 2020 to October 2020.

1.11 Since the NAO report in May, there has been additional announcements of government measures. Table 1.A on the following page summarises all COVID-19 measures to support individuals and businesses up until the announcement of the latest measure on 4 June, and an estimate of their cost where available.

1.12 The spread of COVID-19 and the public health restrictions put in place to limit it will raise the budget deficit and public debt significantly, reflecting both the associated economic disruption and the government's economic policy response.

1.13 The OBR produced an initial assessment of the potential impact of the coronavirus on the economy and public finances on 14 April 2020, this will be

1 https://www.nao.org.uk/report/summary-of-uk-governments-response-to-the-covid-19-pandemic/

updated on the 14 July 2020[2] . This was a scenario rather than a forecast, based on the illustrative assumption that economic activity would be heavily restricted for three months and then gradually return to normal over the subsequent three months.

1.14 The OBR's initial scenario has Public Sector Net Borrowing (PSNB) at £273 billion in 2020-21 and Public Sector Net Debt (PSND) as a percentage of GDP at 95%. On 14th May this forecast was updated. PSNB increased to £298.4 billion and PSND increased to 95.8%. Both forecasts are significantly different to the forecasts published in the March Economic Fiscal Outlook.[3] In March PSNB was forecast to be £54.8 billion in 2020-21 and PSND as a percentage of GDP at 77.4%.

1.15 The OBR continue to monitor the economic, market and policy developments that will feed through to the official measures of the public finances and the latest information is available on their website. The table below provides an estimate of costs based on NAO and OBR's best understanding of the announced measures. Precise costs will depend on a range of uncertain factors, including the impact of the crisis on the wider economy and the level of take-up for each scheme.

1.16 On the 8 July 2020 the Chancellor announced a number of new measures as part of a £160 billion support package to help the UK economy recover.[4] The estimated cost of some of the measures were included in the speech and therefore reported in the table below. Where the estimated value is not known, it will be recorded as not available. The OBR will be providing cost estimates for the measures announced in late July.

2 https://obr.uk/coronavirus-analysis/

3 https://obr.uk/efo/economic-and-fiscal-outlook-march-2020/

4 https://www.gov.uk/government/news/rishis-plan-for-jobs-will-help-britain-bounce-back

Summary of COVID-19 measures and potential financial implications as at 4 June 2020

	Measure	Recipients	Mode	Financial support per recipient	Estimated value*
Business	Grants for small businesses and retail, hospitality and leisure grant fund scheme businesses	Small businesses and retail, hospitality and leisure sectors	Grants	£10,000 or £25,000	£15.0 billion
	Coronavirus Business Interruption Loan Scheme (CBILS)	Small and medium sized businesses	Guarantor for 80%	Up to £5 million, covering lender levied charges & interest charges	£5 billion for 3 schemes (CBILS being 1)
	Business rates holiday relief	Eligible Retail, Hospitality and Leisure businesses	Removal	Equivalent to business rate bill	£10.2 billion
	Coronavirus Large Business Interruption Loan Scheme	Larger businesses	Guarantor for 80%	Guarantor for 80% of up to £50 million	£5 billion for 3 schemes (Coronavirus Large Business Interruption Loan Scheme being 2)
	Future Fund	UK based companies	Loans (subject to match funding)	£125K-£5 million	£0.25 billion allocation
	Financial support for research and development SMEs	SMEs	Grants and loans	£750 million of grants made available	Up to £0.55 billion
	Bounce Back Loan Scheme	Smallest businesses	Guarantor for 100%	Up to £50,000, covering lender levied charges, & interest charges	£5 billion for 3 schemes (Bounce Back Loan Scheme being 3)
	Local Authority Discretionary Grants Fund	Eligible small businesses not covered by other existing schemes	Grants	Up to £25,000	£0.6 billion

	Measure	Recipients	Mode	Financial support per recipient	Estimated value*
Business	VAT deferral	VAT registered businesses	Deferral	Amount owed	£1.9 billion deferred
	COVID-19 Corporate Financing Facility.	Large companies	Purchase short-term debt	Access to liquidity	cost estimate not available
	Postponing off-payroll working reforms for 12 months	All businesses	Delay of changes	Lost receipts	£1.2 billion
	Coronavirus Job Retention Scheme (CJRS)	Individuals "on furlough"	Cash grant to employer	80% of wages up to £2,500, (Sept: 70%, Oct: 60%)	£54 billion
	Coronavirus Statutory Sick Pay (SSP)	Relevant employees	Extension	SSP from day 1	£1.0 billion
	Trade Credit Reinsurance scheme	All businesses (via insurers)	Reinsurance	Up to £10 billion across all trade credit insurers	Cost estimate not available
	Cultural & Heritage support package	Businesses in cultural & heritage sector	Loans & grants	Not available	£1.6 billion allocated
	New Job Retention Bonus	Individuals "on furlough"	Cash grant to employer	One-off bonus £1,000 per furloughed employee	Up to £9.4 billion
	Kick start scheme	Eligible young people (aged 16 -24)	Cash grant to employer	Up to £6,500 per employee	Up to £2.1 billion
	Boosting worksearch, skills and apprenticeships	New apprentices, trainees	Cash grant to employer	£2,000 per apprentice, bonus £1,500 per apprentice over 25	Up to 1.6 billion
	Temporary VAT reduction	Businesses in hospitality & tourism sector	Reduction in tax	Reduced from 20% to 5%	£4.1 Billion
	Eat Out to Help Out discount scheme	Eligible restaurants	Reimbursements	50% discount up to £10 per head	£0.5 billion

	Measure	Recipients	Mode	Financial support per recipient	Estimated value*
Individuals	Self-employed Income Support Scheme (SEISS)	Self-employed/member of partnership	Grants	80% of trading profits up to £2,500 per month (plus additional 70% of trading profits up to £2,190)	£15.0 billion
	Changes to Universal Credit, Working Tax, Credit and Local Housing Allowance	Individuals	Benefit expenditure	Removal of 7 day wait, increases in housing element, increase in standard allowances	£8 billion
	Council tax relief	Individuals receiving Local Council Tax Support	Relief	Reduce council tax bills	£0.5 billion
	Support for vulnerable people	Extremely clinical vulnerable people	Other support	Provision of food packages and other support measures	£0.3 billion
	Extending 'Time to Pay' for all tax balances	Individuals	Payment deferral	Defer payment of tax balances without penalty	£1.2 billion value of deferred tax, cost estimate not available
	NHS life assurance scheme	Frontline NHS/Social care workers	Life assurance	£60,000 to families of eligible workers	cost estimate not available
	Free scheme meals voucher scheme	Eligible households	Vouchers	£15 per eligible recipient	cost estimate not available
	Green Homes Grant	Homeowners & landlords	Grants	66.7% of costs up to £5,000, 100% up to £10,000 (if eligible)	Up to £2.0 billion
	Stamp duty holiday	First time buyers	Tax removal	For transactions below £500,000	£3.8 billion

*Estimated value is based on NAO *Overview of the UK government's response to the COVID-19 pandemic*[5], Office for Budget Responsibility analysis,[6] and Government announcements.[7]

[5] https://www.nao.org.uk/report/summary-of-uk-governments-response-to-the-covid-19-pandemic/

[6] https://obr.uk/coronavirus-analysis/

[7] https://www.gov.uk/government/publications/a-plan-for-jobs-documents/a-plan-for-jobs-2020

Transactions and balances with the EU

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

1.18 A fuller explanation of the relationship is set out in Annex E of the European Union Finances: statement on the EU Budget and measures to counter fraud and financial mismanagement.[8]

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

- The UK's contribution to the EU budget is recognised as a grant expense. This totalled £12.9 billion for 2018-19 (£12.2 billion for 2017-18). This contribution is paid by the Consolidated Fund, and can be found in Note 9 of WGA.
- EU grants and subsidies paid by the UK government on behalf of the EU are also recognised as a grant expense. For 2018-19 this was £4.1 billion (£3.1 billion in 2017-18). This is largely made up of £2.5 billion (£2.1 billion in 2017-18) of grant payments made by the Department for Environment, Food and Rural Affairs (DEFRA). The EU reimburses the UK for this expenditure. This grant payment can be found in Note 9 of WGA.
- Income from the EU to reimburse grants and subsidies can be found in Note 5 of the accounts. For 2018-19 this income was £5.9 billion (£4.1 billion for 2017-18). As noted above, this is largely made up of income received by DEFRA to reimburse them for grants and subsidies paid. Both the payment of grants and subsidies and the subsequent reimbursement is reported to ensure transparency of the flow of funds.
- The UK's interest in the European Investment Bank is included as a non-current investment in the Consolidated Fund accounts and WGA. The value of this asset in WGA at 31 March 2019 was £9.9 billion (2017-18 £9.7 billion). It is included on the Statement of Financial Position and in Note 16 as an equity investment. Under the Withdrawal Agreement the UK's paid in capital in the EIB of €3.5 billion will repaid to the UK. For further details see paragraph 1.24.
- In addition to income, assets and expenditure, there are contingent liabilities held by the UK government that reflect commitments to the EIB and loans to EU member states and third countries that are ultimately backed by the EU budget. As these are contingent liabilities, no money has changed hands, they represent a commitment of the UK government should it be needed. Therefore, no liability is recognised on the balance sheet, and these amounts do not contribute to the WGA net liabilities figure. In addition, these are considered remote contingent liabilities, meaning they are considered to have a very low chance of crystallising. The government's commitment for callable capital under the EIB is £30.6 billion (£31.3 billion in 2017-18), and the UK's maximum liability under loans backed by the EU budget is £9.9 billion (£10.6 billion in 2017-18). More

[8] https://www.gov.uk/government/collections/eu-annual-statement

information on these can be found in the accounts of the Consolidated Fund, and in Note 30 of WGA.

The financial settlement

1.20 The UK left the European Union on 31 January 2020. A transition period is in effect to the end of 2020. Current rules on trade, travel and business for the UK and EU will continue to apply during the transition period.

1.21 The Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community[9] sets out the financial settlement that was reached on the UK's financial rights and obligations as a departing Member State.

Scope of the financial settlement

1.22 The financial settlement addresses mutual obligations that arose primarily as a consequence of the UK's participation in the EU budget, and commitments related to the UK's broader membership of the EU. It does not cover the costs of facilitating withdrawal or new administrative arrangements that may result from the UK's exit. There is also no obligation in the financial settlement to pay for the relocation of EU bodies previously located in the UK.

1.23 The financial settlement does not cover costs that might be associated with the UK's future relationship with the EU. The government has been clear throughout this period that there are some specific European programmes in which the UK may want to participate. If so, and this will be for the UK to decide, it is reasonable that an appropriate contribution should be made. These decisions are subject to negotiations on our future relationship with the EU, and future decisions of Parliament.

1.24 The financial settlement has three main components:

- First, the UK will continue to participate in EU annual budgets to 31 December 2020. This means that the UK will continue to make its contribution and get receipts from EU budget programmes under the normal rules. The financial impact of this will be reflected as an in-year cost in the 2019-20 and 2020-21 accounts of the Consolidated Fund, departments administering certain EU programme receipts and WGA, and are not reflected in the figures in the table below.
- Second, the UK will then pay its share of the EU's outstanding commitments at the end of 2020 (the so-called RAL- 'reste à liquider') and again will benefit from some of these commitments.
- Third, the UK will pay a share of the EU's liabilities as at the end of 2020, and any materialising contingent liabilities, and in return will benefit from a share of relevant EU assets. This includes eligible pension liabilities. These are shown in the 'pensions', 'EIB paid in capital' and 'other' lines in the table below.

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

Valuation of the financial settlement

1.25 An estimate of the assets and liabilities that would be recognised in the accounts of HM Treasury and also of those disclosed in the Consolidated Fund in respect of the EIB as a result of the financial settlement, as at 31 March 2020, is provided in the table below. This only includes those elements of the financial settlement that are recognised under applicable accounting standards and therefore, for example, the first element (contributions and receipts from the 2020 EU Budget) are not included. A fuller presentation of all elements of the financial settlement can be found in European Union Finances, published by HM Treasury.[6]

Valuation of the financial settlement as at 31 March 2020

Element	Asset (£bn)	Liability (£bn)	Maturity profile
RAL	-	(30.3)	To 2027-28
Pensions	-	(8.2)	Various
EIB paid in capital	2.5	-	To 2031-32
Other	0.2	-	To 2022-23
Total (net)		**(35.8)**	
Source: HM Treasury			

1.26 The UK's shareholding in the EIB is recognised as a financial asset with a value of £9.9 billion in WGA 2018-19. The figure of £2.5 billion represents the return of the UK's paid-in capital in the EIB (€3.5 billion undiscounted). 2018-19 values in WGA have not been restated.

1.27 Remote contingent liabilities relating to the UK's callable capital commitment from membership of the European Investment Bank (EIB) are valued at £31.6bn (as at 31st March 2020). This commitment was previously disclosed in 2017-18 WGA. In addition, the UK will maintain a contingent liability in respect of the returned paid in capital, which will wind down in relation to the amortisation of EIB operations approved before withdrawal. Remote contingent liabilities to the EU Budget in Note 30 of WGA are treated in combination with the UK's share of the associated pre-paid guarantee funds in accordance with the terms of the Withdrawal Agreement, which in some cases gives rise to contingent assets. Contingent assets and liabilities are not included in the table above.

1.28 The financial provisions of the Withdrawal Agreement also include other elements that will be recognised as expenditure and income in WGA in future reporting periods. For example, UK participation in EU annual budgets to 2020 do not give rise to material assets or liabilities. UK contributions and public sector receipts from EU programmes accrue in the year to which they relate. Further information on the financial effects arising from the financial provisions of the Withdrawal Agreement can be found in the European Union Finances, published by HM Treasury.[10]

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10 https://www.gov.uk/government/collections/eu-annual-statement

Sensitivities and assumptions

1.29 These assets and liabilities represent payments and receipts to be recognised several years into the future. There are a number of key sensitivities and assumptions which may affect future valuations.

1.30 The asset and liability valuations are sensitive to changes in the discount rates applied under the applicable accounting standards. The obligations of the financial settlement are principally denominated in Euros and therefore the sterling valuations are sensitive to changes in the Sterling/Euro exchange rate. The accounting valuations for the pension related liabilities are sensitive to actuarial assumptions (e.g. life expectancy, inflation) for defined benefit pension obligations. The value of the RAL is also sensitive to the level of implementation of EU Budget commitments (not all commitments necessarily translate into payments). All the items disclosed in the table above, with the exception of those in relation to the EIB, are sensitive to the UK's financing share (the average proportion of the EU Budget that the UK has financed over the 2014-20 period). The key sensitivities are set out in the table below.

Key Sensitivities

Sensitivity component	Assumption Change	Degree of Uncertainty	Sensitivity to Changes	Financial Impact (£bn)	Further Commentary
Financing Share-the average proportion of the EU Budget over 14-20 financed by the UK	The UK's Financing Share on Post-2020 obligations increases by 1%[a] from the current forecast	Low	Moderate	0.4	The UK's Post-2020 Financing Share is an average of its Own Resources share as a contributor to the EU budget for the years 2014-20. At the time of reporting only the final 2020 Financing Share has yet to be determined. This means the remaining uncertainty around this assumption is limited. Changes to the Post-2020 Financing Share effect the value of all provision liabilities (RAL and Pension)
Exchange Rate – Sterling/Euro exchange rate	The effect of a 1% depreciation/ appreciation of Sterling against the Euro	High	Moderate	0.4	A depreciation of Sterling against the Euro results in the value of the provision liability (RAL, Pension) increasing. An appreciation of Sterling has the opposite effect. This models a 1% depreciation/appreciated from the 31st March 2020 exchange rate.

Decommitments – the proportion of EU budgetary commitments in the RAL that are not implemented	The proportion of RAL that is estimated to be decommitted changes by 1% in absolute terms.	Moderate	Moderate	0.3	A decrease in decommitments increases the value of the RAL liability. An increase in decommitments will have the opposite effect.
Discount Rate – the discount rate applied to future cash flows to take account of the time value of money	The effect of a 0.1% decrease in the discount rate applied to provision liabilities (principally RAL and Pension)	Moderate	Moderate	0.3	Provisions are discounted in accordance with the requirements of the Financial reporting Manual and the rates set centrally by HM Treasury. The 0.1% decrease is applied to each of the spot rates set for different time horizons. Changes to this discount rate do not affect what the UK pays under the financial settlement, only the valuation of the liability for financial reporting purposes.

Source: HM Treasury

a This is equivalent to an increase in absolute terms of over 0.1% in terms of the UK's share of EU obligations. For further explanation of the UK's financing share of the EU budget, see European Union Finances, published by the HM Treasury.

Spending on EU Exit preparations

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

1.32 The National Audit Office published an estimate of EU Exit spending by central government departments in its report Measuring the cost of EU exit preparations[11]. This report found that at least £4.4 billion had been spent by departments on EU exit preparations between June 2016 and 31 January 2020. Of this, £1.9 billion was spent on staff and staff related activities, and £1.5 billion spent on purchases of goods and services.

1.33 Around £1.6 billion of this was spent in 2018-19, and a further £2.3 billion spent in 2019-20.

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

[11] https://www.nao.org.uk/report/the-cost-of-eu-exit-preparations/

What WGA does not include in respect of EU exit

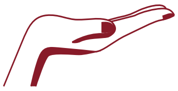
1.35 WGA does not include:

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

Year at a glance

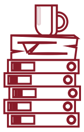
Highlights of cross government performance statistics

£34.1bn additional tax generated by tackling avoidance, evasion and non-compliance. Source HMRC



£5.5bn used to support 78,000 smaller businesses. Source: BEIS

£5.3bn received from the sale of Bradford & Bingley loans
£2.5bn in revenue from the sale of shares in RBS. Source: HMT

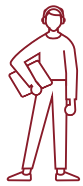


£45.2bn core funding for schools and high needs. Source: DfE

£1.8bn for the Schools for the Future programme in Scotland. Source: Scottish Government

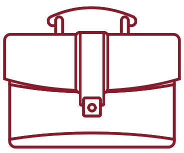
£1.1bn of the Home Building Fund was awarded, and is expected to unlock over 47,000 homes. Source: MHCLG

>£1.4bn invested across 2014-19 with 193 schools and colleges rebuilt or refurbished in Wales. Source: Welsh Government



1.6% GDP growth in 2019. Source: ONS

£1.5bn in revenue from the sale of Network Rail arches portfolio.
Source: DfT



£182.5bn paid out in benefit, pension and Social Fund payments.
Source: DWP

£350m to help boost economic potential of Northern Ireland. Source: NI Office

What is WGA?

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

WGA is made up of over 9,000 entities, across the whole public sector including central government departments, local authorities, devolved administrations, the NHS, academy schools and public corporations.

Why do we prepare WGA?

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

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

WGA and National Accounts

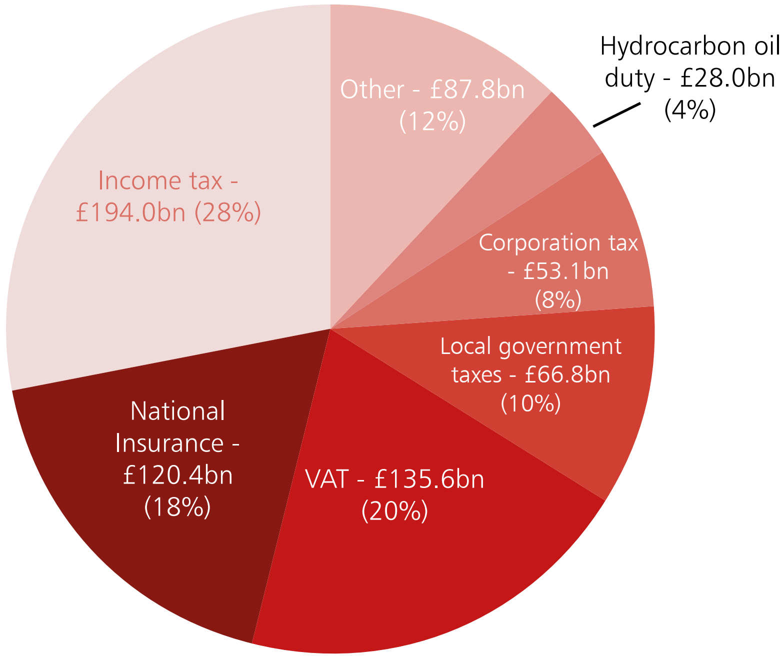
Day to day management of the public finances uses the National Accounts measures. These measures are less comprehensive than WGA, but are far faster to prepare, and follow international standards that allow comparisons between countries. Using WGA and the National Accounts together allows for robust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

Income

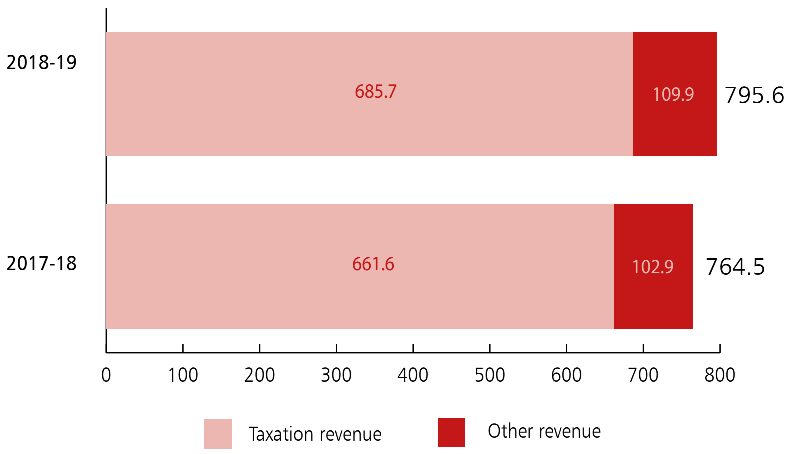
Tax income

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

Taxation revenue - £bn in 2018-19



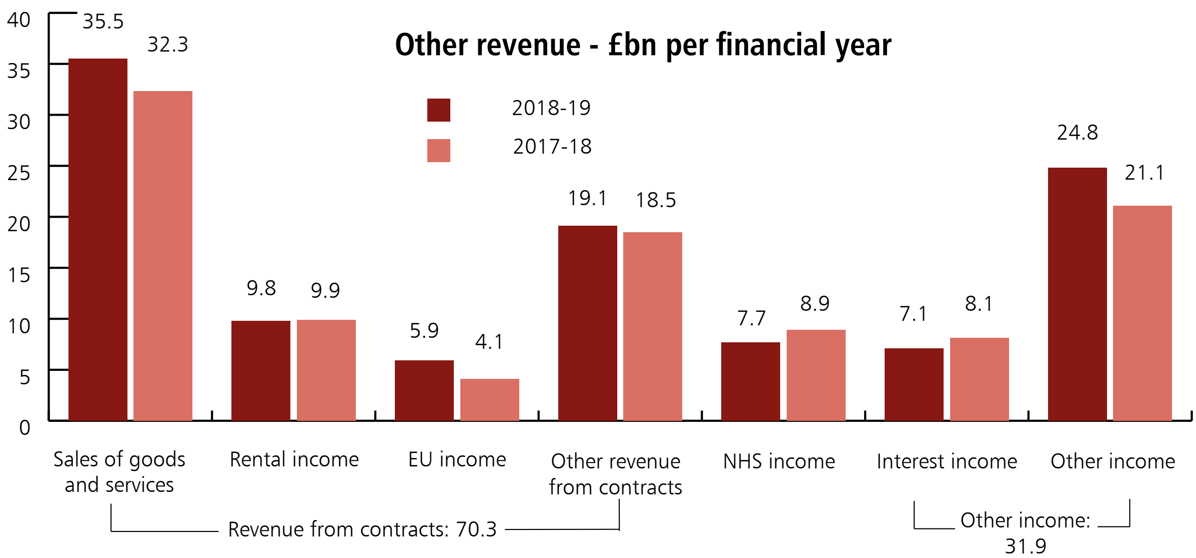
WGA income - £bn



WGA income

In addition to tax income, government generates income from a wide variety of sources. Revenue from contracts is largely made up services provided by Local Authorities (£18.2 billion), with TfL accounting for £4.9 billion. Most EU income (£5.9 billion) is spent by Defra on payments under the Common Agricultural Policy. NHS income is made up of a variety of sources, including income from private patients (£0.6 billion).

Other revenue - £bn per financial year



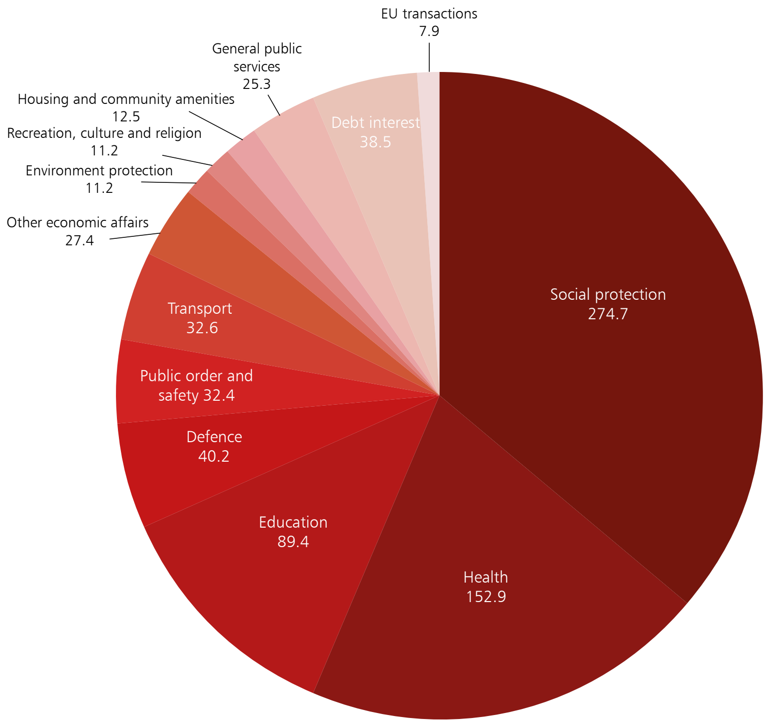
Expenditure

Expenditure type	2018-19 (£bn)	2017-18 (restated) £bn
Social security	230.3	225.9
Staff costs	255.7	215.8
Purchase of goods and services	206.5	207.4
Grants and subsidies	58.8	51.2
Debt interest	31.6	36.8
Other	68.9	71.7
Total expenditure on public services	**851.8**	**808.8**

Social security benefits

Social security benefits make up 27% of government expenditure. A significant proportion (43% of total benefits) is made up of the State Pension, with 10% made up of Housing Benefit,13% paid in disability and carers benefits and 14% paid as working age benefits.

Main areas of functional spending 2018-19 - £bn



Source: Public Expenditure Statistical Analysis

Staff costs

Staff costs account for the largest proportion of expenditure (30%). This includes salaries and wages of £159.4 billion and pension scheme costs of £96.3 billion. Permanent staff make up 95.5% of all staff costs. WGA shows 4.4 million full time equivalent persons employed, with 1.5 million employed by the NHS.

Alternative views of expenditure

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

Drilling down into further analysis has been challenging but the Treasury also publishes Public Expenditure Statistical Analysis (PESA) and Country and Regional Analysis, which provides an alternative functional insight and regional breakdown of public spending. This chart reports the PESA functional analysis for 2018-19. This can be reconciled to WGA total spend (see expenditure section for more detail).

Assets

The most significant assets owned by government are property plant and equipment, other financial assets and trade and other receivables.

Asset type	2018-19 (£bn)	2017-18 (£bn)
Property, plant and equipment	1,268.0	1,208.4
Other financial assets	514.9	507.6
Trade and other receivables	190.3	179.9
Other assets	125.6	117.9
Total assets	**2,098.8**	**2,013.8**

Property, plant and equipment

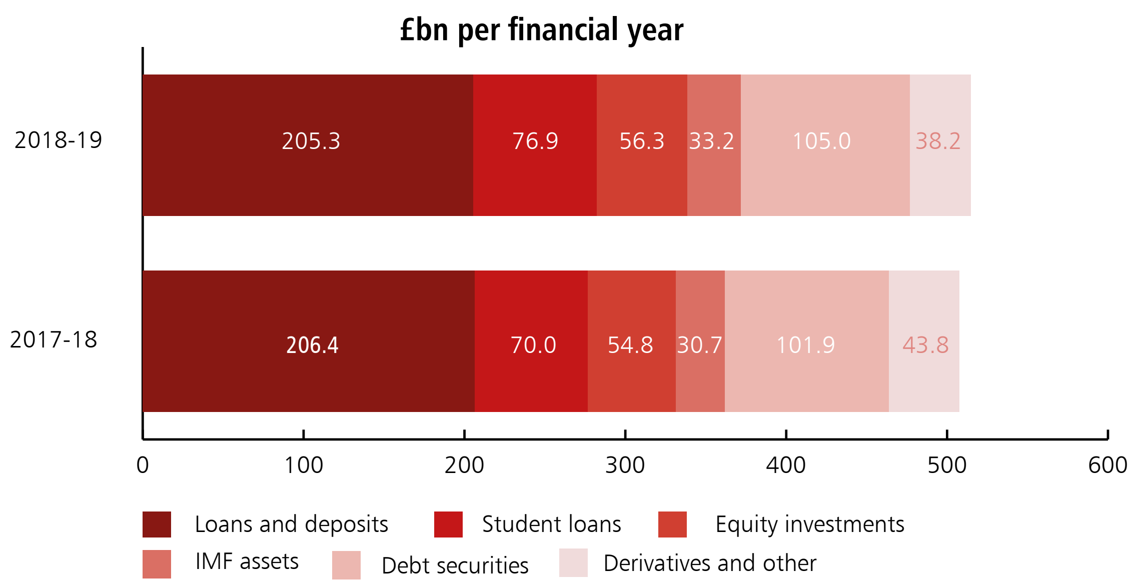
Property, plant and equipment (PPE comprises 60% of assets in WGA. The largest components of PPE are land and buildings, and infrastructure assets – which includes the road and rail network.

Trade and other receivables

The most significant government receivable is taxation income due of £150.7 billion. This represents amounts of tax and duties where the taxable event has occurred but the return has not been received from the taxpayer by the year end.

Other financial assets

Other financial assets include loans and deposits, the student loan book, equity investments and debt securities. Some are held for cash management purposes and others to support specific policy objectives. The largest increase is student loans, driven by new loans being issued. Equity investments includes shares in RBS. The government sold a tranche of 7.7% of RBS shares with a fair value of £2.5 billion, reducing the remaining shareholding to 62.1%.



Liabilities

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

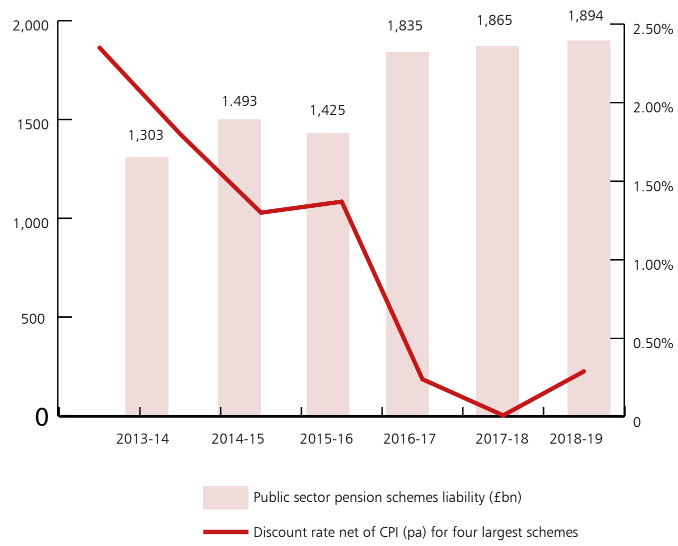
Liability type	2018-19 (£bn)	2017-18 (£bn)
Public sector pensions	1,893.9	1,865.3
Government borrowings	1,407.2	1,347.4
Other financial liabilities	750.2	752.8
Provisions	311.4	422.5
Trade and other payables	191.9	191.2
Total liabilities	**4,554.6**	**4,579.2**

Government borrowings

The primary form of government debt is gilts. Total gilts stand at £1,159.9 billion. Other components include Treasury Bills and NS&I products.

Public sector pension liability

Public sector pensions are the largest liability within WGA at £1,893.9 billion. In 2018-19 the liability increased by £28.6 billion, mainly reflecting additional liabilities from legal cases the government lost on transitional protection. Pension valuations are also impacted by changes in the discount rate used to calculate the present value and changes to actuarial assumptions such as on inflation and salary growth, life expectancy and workforce size.



Provisions

Provisions are liabilities of uncertain timing or amount. Key provisions in WGA are those for nuclear decommissioning and clinical negligence. Changes this year in total provisions have been driven by changes to discount rates.

Commitments and contingent liabilities

Types of liability in WGA

The WGA balance sheet shows £4.6 trillion of liabilities. In addition to these, there are commitments which are not recognised on the balance sheet.

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

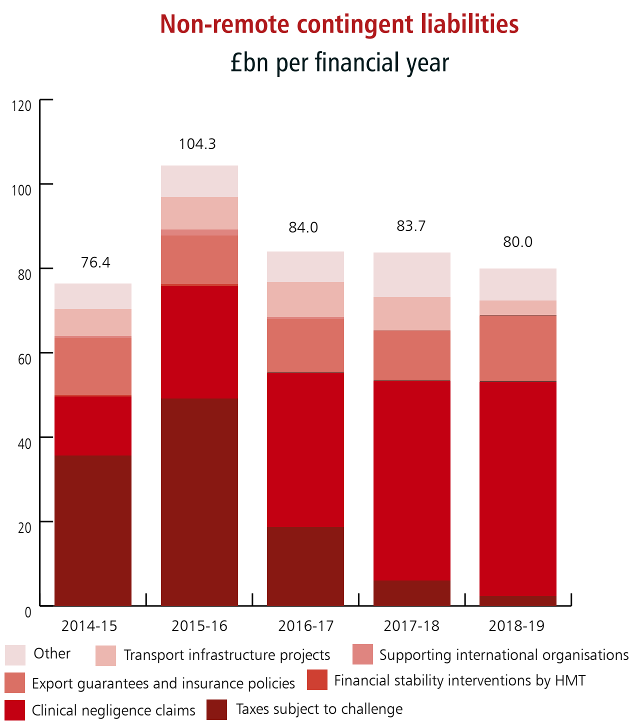
Commitments

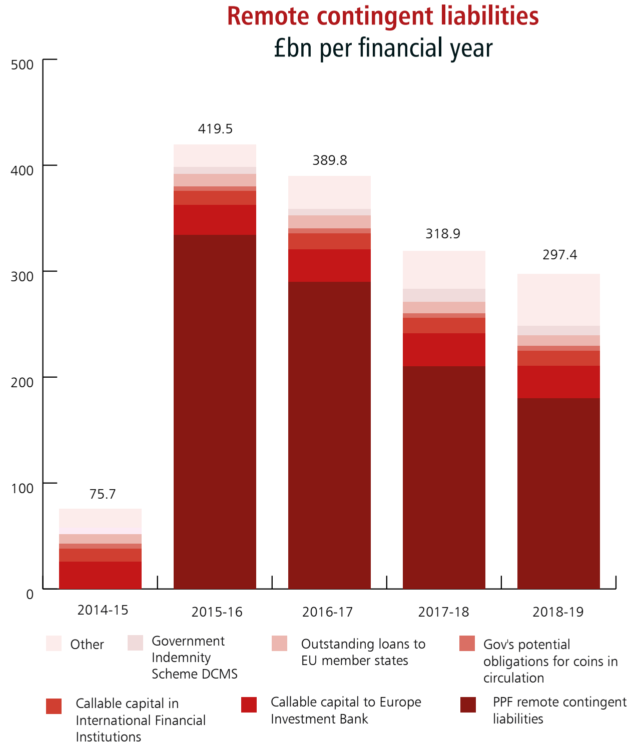
Commitments captured in WGA total £178.2 billion. These include £53.2 billion in capital commitments, £21.3 billion in commitments under operating leases, £5.4 billion in finance leases, £38.5 billion in PFI finance lease commitments and £59.8 billion in other financial commitments.

Contingent liabilities

Contingent liabilities are liabilities that are unlikely, and will not crystallise unless a specific event occurs. These include indemnities, guarantees, or clinical negligence liabilities that are not already recognised on the balance sheet. We see a spike in remote contingent liabilities in 2015-16 when Pension Protection Fund starts disclosing its remote contingent liability for pensions.

The charts below show government's remote and non-remote contingent liabilities.



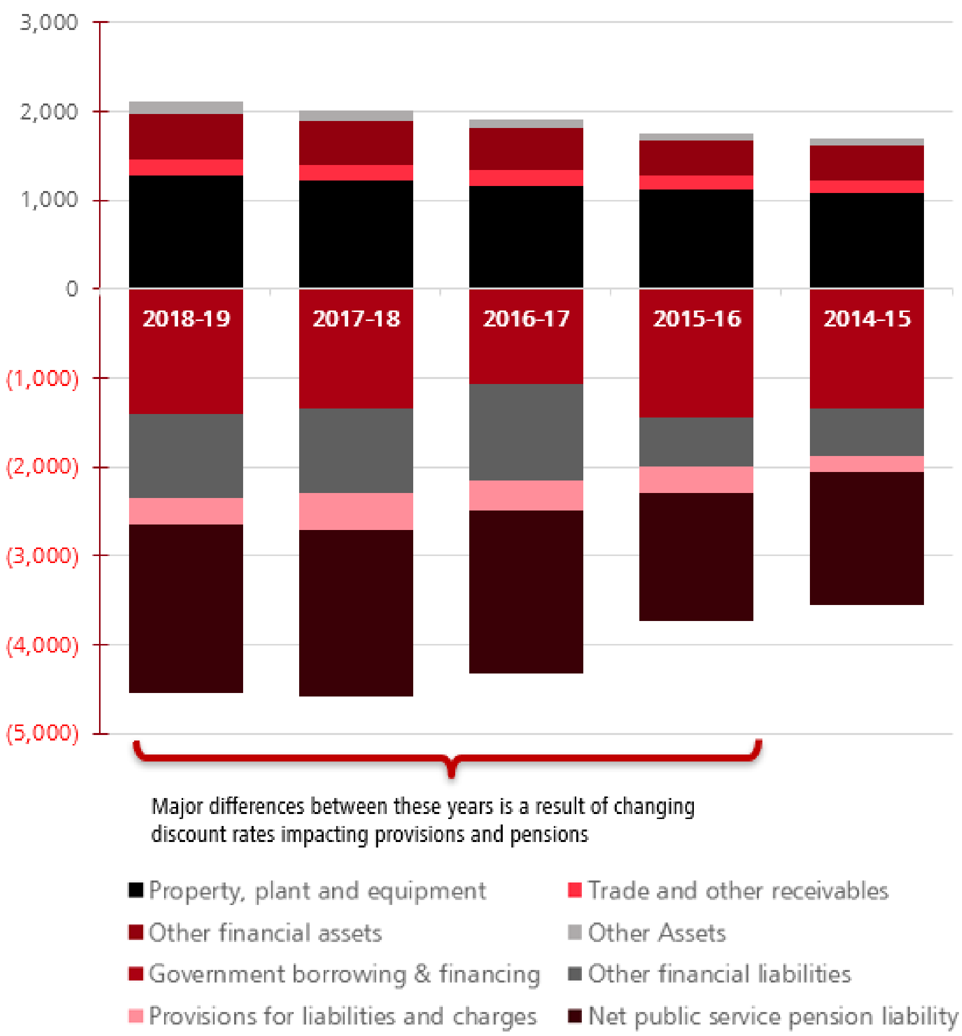


Report on Assets and Liabilities

Statement of Financial Position

1.36 The purpose of the Statement of Financial Position, also known as a balance sheet, is to show the financial status of an entity as of a specific point in time. In WGA, the Statement of Financial Position shows what the UK public sector owns (its assets) and how much it owes (its liabilities). This information is more valuable when the balance sheets for several consecutive periods are grouped together, so that trends in the different line items can be viewed.

Chart 1.A: Assets and Liabilities of the UK over time



1.37 In the chart above, we can see the liability part of the balance sheet increasing at a faster rate than the assets. In the last four years, a significant factor for the increase in liabilities has been changes in discount rates used to calculate major liabilities such as net public service pension liability and provisions. The following sections explore the most significant assets and liabilities, and the underlying income and expenditure in 2018-19.

Box 1.A: COVID-19 update – Impact on public finances May 2020

May's public finance data provides helpful insight to the fiscal impact from the COVID-19 lockdown and government support for individuals and businesses. Tax payments received by HMRC were down 43% on the same period last year, while central government spending jumped by 48%.[a]

Public sector net borrowing (PSNB) totalled £55.2 billion in May, up £49.6 billion on May last year, and £5.2 billion higher than market expectations. Borrowing across April and May reached £103.7 billion, up £87.0 billion on the same period last year and higher than the full-year borrowing in any year since 2013-14. The rise reflected a £30.6 billion rise in central government spending, along with a £16.2 billion fall in central government receipts. Local government borrowing was up £3.0 billion on last year.

Net debt rose by 20.5% of GDP on a year earlier to 100.9% in May – the first time it has exceeded 100% of GDP since the early 1960s. This reflects the impact of higher borrowing and Bank of England schemes on cash debt, but also the falls in nominal GDP over the coming months assumed in the OBR scenario.

Looking ahead: COVID-19 potential impact on liabilities in future years

The government's intention is to finance the packages through its normal debt management operations. Public Sector net borrowing fell from 10.2% of GDP in 2009-10[b] to 1.8% of GDP in 2018-19.[c] The work of the last ten years in bringing borrowing and debt back under control has ensured the public finances are well placed to deal with the challenges posed by COVID-19. However, the government does anticipate a significant financial impact in 2019-20 and 2020-21 accounts on financial liabilities:

- Government borrowing will increase to fund the extra measures announced to help support individuals, businesses and subsequently the economy and as a result of reduced taxation income.
- Provisions and public sector liabilities are measured using discount rates based on factors like the time value of money and corporate bond yields. These are subject to fluctuation as a result of the substantial market changes due to COVID-19.

a https://obr.uk/docs/June-2020-Commentary-on-the-public-sector-finances.pdf

b https://obr.uk/docs/dlm_uploads/econ_fiscal_outlook_291110.pdf

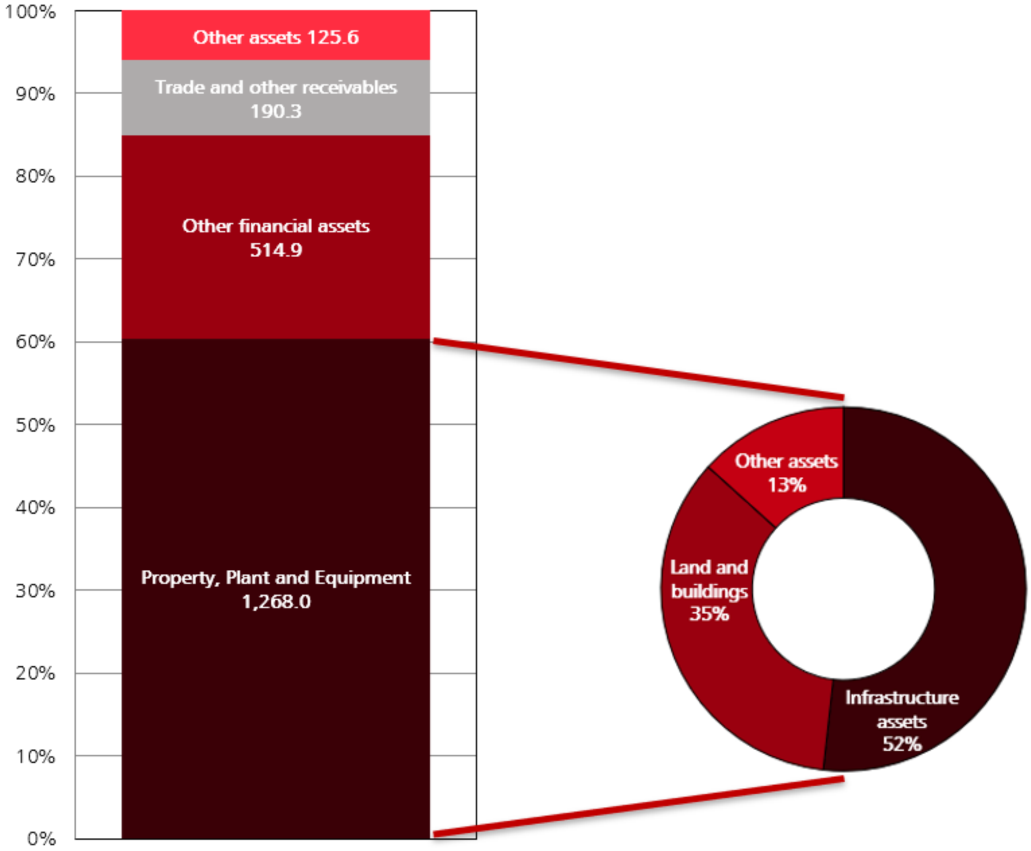
c https://cdn.obr.uk/EFO_March-2020_Accessible.pdf

Assets

Total Assets £2,098.8 billion

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

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

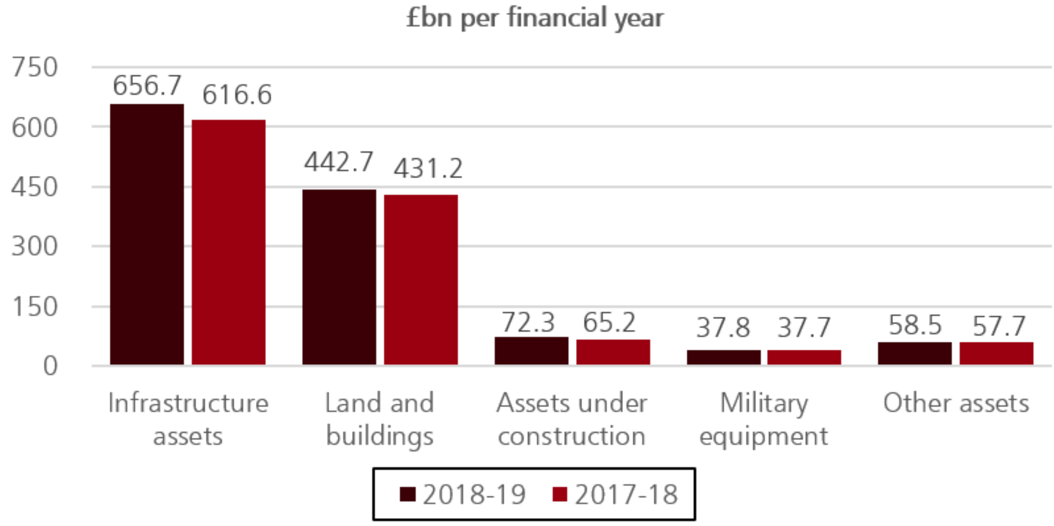


1.39 The most significant assets owned by the government are property, plant and equipment (PPE) (which includes land and buildings, infrastructure and military equipment), financial assets and trade receivables. Almost 60% of Assets is PPE, 52% of which is infrastructure. The largest contributor to the public sector's infrastructure is the Rail Network valued at £328.8 billion (2017-18 £300.6 billion). Included in other assets is intangible assets (£37.4 billion). Intangible assets are measured in accordance with the accounting standards. There is a broader definition of intangible assets which encompasses knowledge, techniques and know how, which supports broader consideration of public value. These are sometimes referred to as Knowledge Assets. As they do not meet the recognition requirements of the accounting standards they are not captured in WGA. At budget 2018 HM Treasury published a report that highlighted the scale of knowledge assets held by the public sector.[1]

[1] Getting smart about Intellectual Property and other intangibles in the public sector' HMT, Budget 2018

Property, Plant and Equipment £1,268.0 billion

Chart 1.C: Property, Plant and Equipment breakdown



1.40 Overall, the value of government's property, plant and equipment increased by £59.6 billion or 4.9% in 2018-19. The most significant component of the government's property, plant and equipment are infrastructure assets and land and buildings. Further detail follows on each of these balances.

Infrastructure Assets £656.7 billion

1.41 Infrastructure assets increased by £40.1bn (6.5%) compared to the prior year. A breakdown of government infrastructure assets by type is show in the table below.

Chart 1.D: Breakdown of infrastructure assets

Held by	2018-19 £bn	2017-18 £bn
Network Rail	328.8	300.6
Highways England	121.2	119.3
Scottish Water	61.2	59.2
Northern Ireland Department for Infrastructure	28.0	26.8
Scottish Government Strategic Road Network	20.5	19.4
Welsh Government	16.8	16.3
Other	8.0	4.6
Total central government and public corporations	584.5	546.2
Transport for London	19.1	18.7
Highways Infrastructure and other local government assets	53.1	51.7
Total local government	72.2	70.4
Total Infrastructure assets	656.7	616.6

1.42 The most significant movements related to Network Rail, and other government departments. The increase in the value of Network Rail assets is driven by revaluation gains, arising from the estimated annual increase of building a modern equivalent infrastructure asset. Given the high value and often specialised nature of the assets, these estimates are subject to a significant amount of uncertainty. More information on sensitivity analysis can be found in Note 12.

1.43 From 1 April 2019, Network Rail started its latest five-year planning cycle with a commitment to spend £48.0 billion on the rail network (of which £35.0 billion will be grant funded). The scope of this funding covers operation, maintenance, renewal and enhancement of the existing rail network.

1.44 In 2019-20 Highways England will complete the £15 billion investment in the Strategic Road Network as part of the Road Investment Strategy. A second five-year road investment period will start in 2020 aligned to the National Roads Fund announced by the Autumn Budget 2018.

1.45 Central government values their infrastructure assets at depreciated replacement costs. Local government values their assets (of which highways infrastructure is the most significant) based on historical cost.

Box 1.B: Valuing infrastructure assets

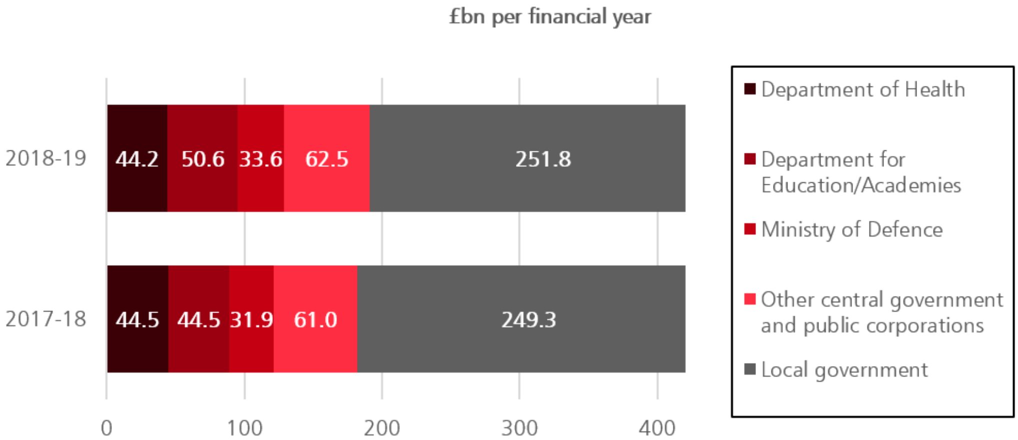
One of the four areas which WGA is qualified on is inconsistent accounting policies. This mainly relates to different methods used in valuing infrastructure assets. Central government value their infrastructure assets at depreciated replacement costs. Local government on the other hand, values their assets (of which highways infrastructure is the most significant) based on historical cost.

The carrying value of the local authority highway network asset is £72.2 billion (2017-18: £70.4 billion). This compares to the ONS estimate for the road network of £131.1 bn as at 31 December 2018 (2017: £127.8 billion restated). Infrastructure assets are likely to be understated by at least £58.8 billion. The ONS figure excludes land, and therefore the total error is likely to be larger than the figure stated. At present, this is the most appropriate comparative measure to determine the minimum potential difference in value. If local government were to use an IFRS depreciated replacement cost methodology for valuing infrastructure, it would be unlikely to impact decision making around ownership of their highway assets. Local government have a duty of care to maintain their infrastructure assets to reasonable level of standard. This duty of care is not affected by the valuation method, and therefore not an incentive for change. Inconsistent valuation of infrastructure assets will remain as a qualification in the medium term because it is not cost effective to change accounting valuations within local authorities.

Land and buildings £442.7 billion

1.46 The value of land, buildings and dwellings owned by government increased by £11.5 billion or 2.7% in 2018-19. The most significant increase related to land and buildings held by Academies, amounting to £6.1billion.

Chart 1.E: Government land and buildings



Managing the Government's estate

1.47 The Office of Government Property, the successor body to the Government Property Unit, was established in 2018 to drive forward a strategic approach to the government estate and develop the property function across government.

Box 1.C: Office of Government Property

The Government Estate Strategy[a] was published in July 2018 with the ambition of elevating property to a strategic platform for the delivery of public services. It heralds a more commercial approach to central government property - including establishing the Government Property Agency (GPA) and establishing a programme to deliver a Digital National Asset Register. This will join, for the first time in one place, public sector property and land data with socioeconomic data. This will allow for improved strategic management of the government estate through a portfolio view of assets, and also enable better location decisions by linking estate with geographic, social and economic information.

During the reporting period, the government progressed work towards a new framework for assessing the whole life cost of property – informing more effective decision-making through the whole life of our assets – from planning and design through to construction, operation and decommission. Developments to date have focused on common assessment tools, new standards and management practices. These will drive better value from the estate and make for a better user experience by ensuring investment decisions do not just consider construction/acquisition costs but take a longer-term view.

In this reporting period government raised £2.06 billion from disposal of 339[b] sites. This brings the total raised since 2015 to £4.62 billion of surplus land and property from the disposal of 1,852 sites. The annual Transparency Report for 2018/19, detailing the sale of government land and property in the reporting period, was published in February 2020.[c]

The annual State of the Estate report for the 2018/19 financial year was published in February 2020.[d] The report demonstrated the continued reduction, by 4%, in the size of the central civil estate and reported that carbon emissions have reduced across the estate by 46% compared to the 2009-10 baseline and paper consumption has dropped by 59%. The central estate is nearly a third smaller, and costs £1.6 billion less to run, than in 2010. The government continues to significantly outperform the private sector on three key performance metrics - space per person, cost per person and cost per m^2.

In its first year of operation, since its launch on 1 April 2018, GPA took £195 million of general-purpose properties occupied by the Cabinet Office, Crown Commercial Service, and Department for Business, Energy and Industrial Strategy (BEIS) onto the GPA balance sheet along with their facilities management. The intention is to transfer all general-purpose assets to the GPA to enable optimum operation and management of this portfolio.

a https://www.gov.uk/government/publications/government-estate-strategy-2018

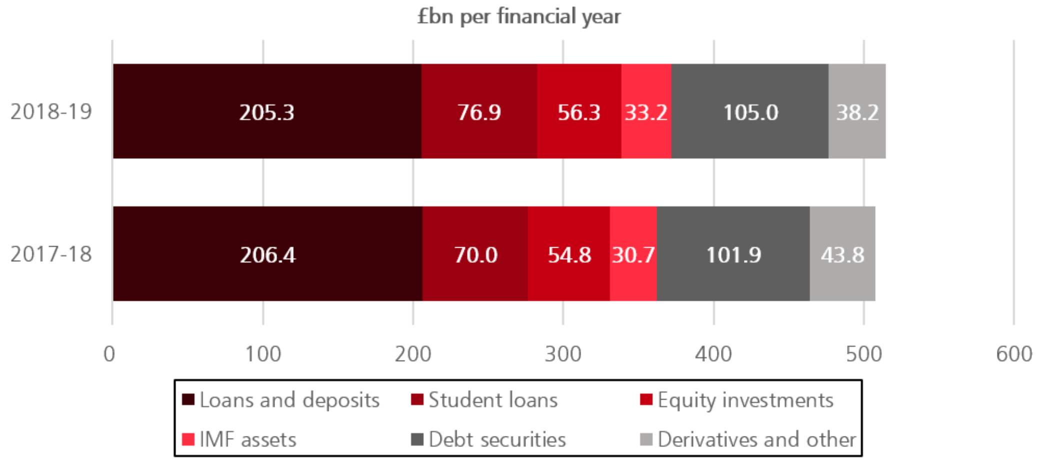
b The sale of the Network Rail Arches portfolio of 5,261 rental spaces is counted as one site.

c https://www.gov.uk/government/publications/sales-of-government-assets

d https://www.gov.uk/government/publications/state-of-the-estate-2018-2019

Other Financial Assets £514.9 billion

Chart 1.F: Breakdown of other financial assets



1.48 The government holds a range of financial assets. Some are held as part of the government's normal operations to manage cash and foreign exchange risks. Other were acquired to support specific policy objectives. The largest balance in loans and deposits is Term Funding Scheme loans, held by the Bank of England (£121.4 billion). The largest balance in debt securities is held by the Exchange Equalisation Account (£81.0 billion). The largest student loan balance is held by the Department of Education (£67.9 billion). Further details on these significant balances is included below.

Term Funding Scheme loans: £121.4 billion

1.49 Assets held under the Term Funding Scheme (TFS) decreased by £5.7 billion as a result of loans maturing in 2018-19. The Term Funding Scheme (TFS) was announced in August 2016, as part of a comprehensive package of easing measures announced by the Monetary Policy Committee. The primary objective of the TFS was to reinforce the pass through of the August 2016 cut in Bank Rate to the interest rates faced by households and companies, allowing the reduction from 0.5% to 0.25% to have broadly the same impact as cuts made when rates were further from zero.

1.50 The design of the TFS reflected this primary objective and it was calibrated so that the reduction in Bank Rate could have a broadly neutral impact on lenders' margins in aggregate. Under the TFS, participating banks and building societies were able to borrow funds from the Bank of England at a rate close to Bank Rate for up to four years. The TFS opened to drawdowns on 19 September 2016 and closed on 28 February 2018, as envisaged when it was introduced, having made £127 billion of loans. In January 2019, the TFS loans held by the Bank of England Asset Purchase Facility (BEAPFF) were transferred out of the BEAPFF account into the Bank of England's balance sheet.

1.51 Quantitative and qualitative evidence, including feedback from participants, suggests that the primary objective of the TFS was achieved. Observations from the period after the TFS was launched suggest that the reduction in Bank Rate was passed through to lower lending rates on loans such as mortgages, without any significant compression in lenders' net interest margins, or in the supply of credit to the economy. Moreover, it seems that the TFS has been effective in supporting lending to the real economy – aggregate net lending by TFS participants increased 4.5% over the course of the scheme.

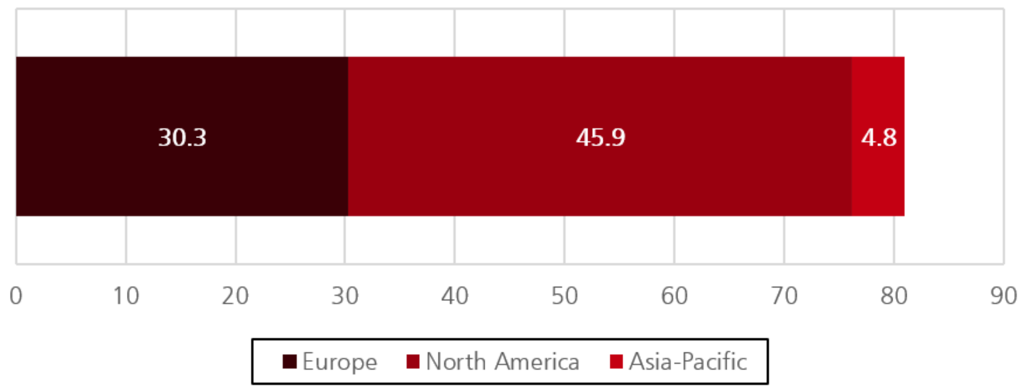
1.52 TFS loans makes up 20.2% of the Bank of England's assets.

1.53 More information about TFS loans can be found in the Bank of England's annual report and accounts, in other documents on their website[2].

Exchange Equalisation Account - Debt Securities: £81.0 billion

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

Chart 1.G: Concentration of debt securities by geographical region (£ billion)

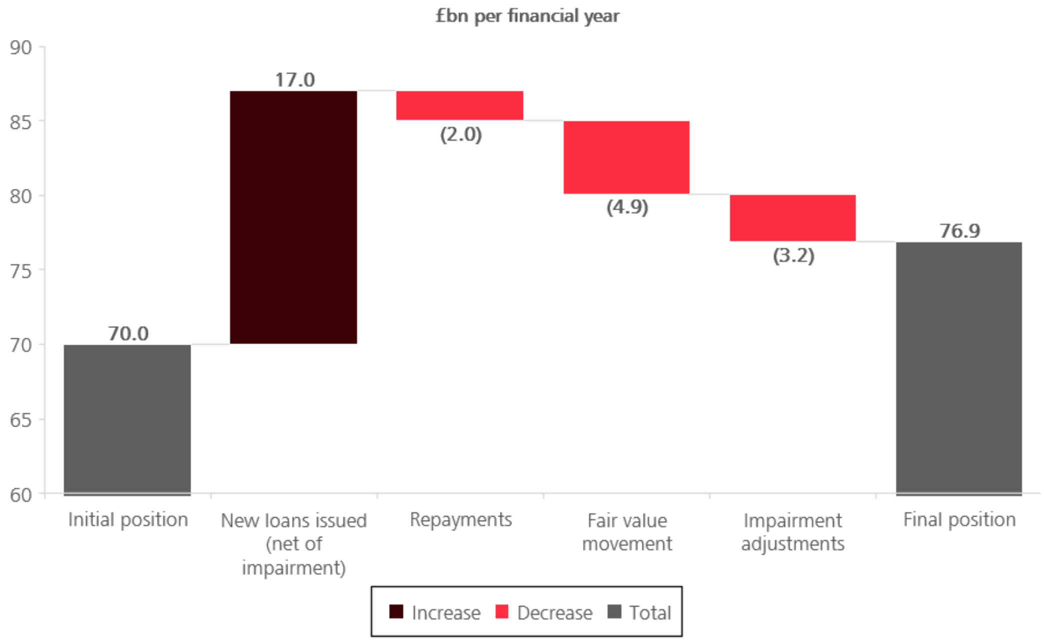


2 https://www.bankofengland.co.uk/quarterly-bulletin/2018/2018-q4/the-term-funding-scheme-design-operation-and-impact,

https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data

Student Loans: £76.9 billion

Chart 1.H: Change in student loan valuation



1.55 The student loan portfolio continues to expand. The value of outstanding student loans is forecast to reach £473.0 billion by March 2049.[3] Government's long-term estimate is that 55.0-60.0% of the loan value will be repaid.

1.56 In 2013 the government decided to sell a portion of the student loans issued before 2012. As part of Budget 2020, the government conducted an internal review of the student loan sale programme, in consultation with the Department for Education and UK Government Investments (UKGI). This review sets out the government's analysis and confirms that the two past sales achieved value for money, raising £3.6 billion and reducing public sector net debt.

1.57 However, following the Office for National Statistics' recent change in the accounting treatment of student loans (see box 1:D), sales would now have new impacts on borrowing and net investment. The review announced that the government will not make further sales of student loans.

1.58 The NAO also published a value for money study that examined the sale of student loans (July 2018). This examines the government's sale of its first batch of student loans. The NAO concludes that in terms of the preparation, process and proceeds of the transaction itself, UKGI has achieved value for money. However, it also flags that the sale shows limitations in the way that government assesses value for money and measures costs of student loans over time.

3 https://www.nao.org.uk/report/the-sale-of-student-loans/

Box 1.D: The impact of student loans on public sector net borrowing

Following the adoption of IFRS 9 Financial Instruments from April 2018, Department for Education's accounting for student loans has moved to fair value through profit and loss. However, budgeting for student loans remains based on amortised cost, and the Office for National Statistics (ONS) have introduced a new statistical treatment for student loans in the National Accounts and Public Sector Finances from September 2019.

In December 2018, following a review, the ONS decided that part of the initial loan paid to students would be treated as government capital expenditure and increase the deficit, and part would continue to be treated as government lending. In addition, the ONS concluded that interest accrued on student loans should only reduce the deficit if it was expected to be repaid.

The ONS implemented this change into the National Accounts and Public Sector Finances in September 2019, and prior to that, the ONS published a detailed methodological guide in June 2019, along with provisional estimates of the impact on the fiscal aggregates.

The ONS has published the fiscal effect of the change in treatment for outturn periods. For the 2018-19 financial year, compared to the previous treatment, the change has increased Public Sector Net Borrowing (PSNB) by £12.4 billion: £10.1 billion of this increase is from the new recording of capital expenditure, affecting Public Sector Net Investment (PSNI) – including £1.5 billion relating to the sale of student loans in that year – while the remaining £2.3 billion is due to lower accrued interest receipts (which increases the Public Sector Current Budget Deficit).

Liabilities

Total liabilities £4,554.6 billion

1.59 Government holds a series of significant liabilities: government borrowing, public sector pension liabilities, other financial liabilities, payables and provisions. Below is a summary of significant liabilities on the government's balance sheet.

Summary of liabilities

Liability	Due within one year £bn	Due after one year £bn	
Deposits by banks	554.0	2.8	Deposits by banks are mostly deposits by commercial banks with the Bank of England and are repayable on demand. These fluctuate depending on the underlying business activity of those financial institutions.
Bank notes in circulation	74.2	-	There is a constant need to have a supply of cash in the economy. Whilst this liability is repayable on demand, it can be considered to not have a maturity, although its value will fluctuate over time depending on the value of notes in circulation.
Gilts	59.9	1,100.0	Gilts are the main form of government borrowing. This will drive the governments' need to access the bond market to fund borrowing. At the end of 2018-19, the average time to maturity of gilts is 15.9 years, the longest maturity gilt in issue is due to redeem in the 2071-72 fiscal year, and the main bulk of gilts are due for redemption before 2040.
Nuclear decommissioning provision	3.1	149.1	The nuclear decommissioning provision reflects works to decommission nuclear sites which are not expected to be fully completed until 2137. The length of time, and complexity of the materials involved, results in uncertainty in cost estimates in later years.
Clinical negligence	2.9	82.4	Clinical negligence payments are dependent on the outcome of legal processes. Claims for seriously injured patients are usually paid as a lump sum up front and annual payments for the rest of the claimant's life. This means some elements of the liability will last several decades.
Public sector pensions	-	1,893.9	The OBR produces projections for public sector pensions up to 2067-68. Given the nature of the liability, pay-outs will be made for many decades to come.
Other liabilities	416.2	216.1	Short-term liabilities range from trade and other payables, to Treasury bills and IMF Special Drawings Rights. Figures can fluctuate depending on the underlying business activity. Long-term liabilities range from PFI contracts ending in 2049-50, to Pension Protection Fund provisions estimated to 2094, to obligations under finance leases with varying terms, including one held by the Ministry of Defence for homes for service personnel which ends in 174 years
	1,110.3	3,444.3	

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

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

1.61 No liabilities are recognised in the 2018-19 WGA for COVID-19 support measures to individuals and businesses.

Deposits by banks £556.8 billion

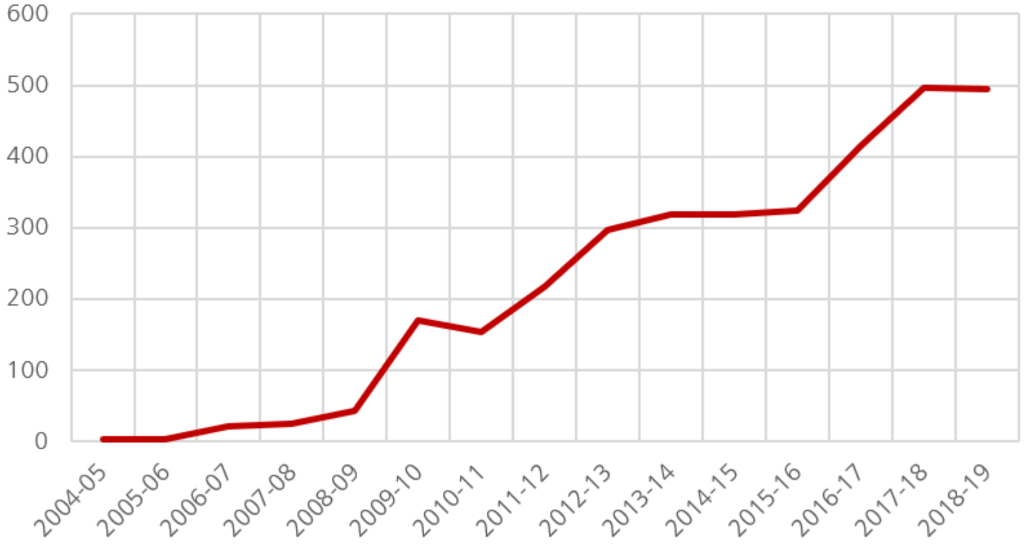
1.62 Deposits by banks mainly comprise reserves accounts held at the Bank of England. This is a decrease of £1.3 billion from £558.1 billion in 2017-18. Reserves accounts are sterling current accounts for banks and building societies. They are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies.

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

1.64 Chart 1.I below shows how deposits by banks have increased steadily over the last 15 years. During the last 15 years, the Bank of England have used new monetary policy tools, such as Quantitative Easing (QE) and the Term Funding Scheme, to boost spending and investment in the economy and help the independent Monetary Policy Committee meet its inflation target. These policies are funded by creating additional central bank reserves, which increases deposits by commercial banks at the Bank of England. Policies which create central bank reserves have been used multiple times since 2008, notably there have been rounds of QE in 2009, 2012, 2016 and 2020, which have led to the continued sharp increase in deposits by banks over the last 12 years.

1.65 In the case of QE, the basic mechanics involve the central bank creating money by extending a loan to the Bank of England Asset Purchase Facility (BEAPFF). The BEAPFF uses this money to buy gilts and high quality corporate bonds from the private sector which results in a rise in central banks reserves held by commercial banks.

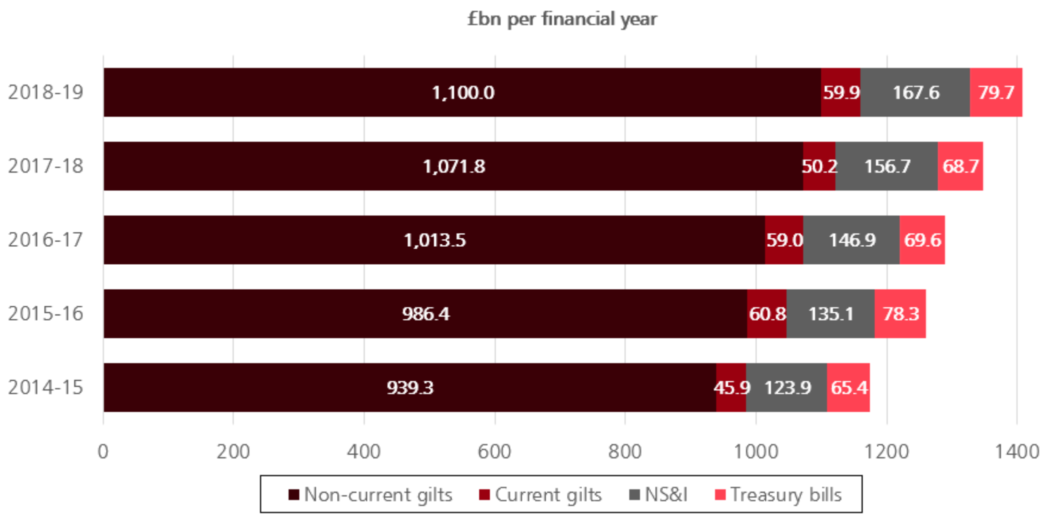
Chart 1.I: Deposit by banks at Bank of England over the last 15 years (£ billion)



Source: Bank of England

Government borrowing £1,407.2 billion

Chart 1.J: Government borrowing over time



1.66 Government borrowing is achieved through the issuance of gilts and Treasury bills. The total nominal value of central government wholesale debt (excluding government holdings) as at 31 March 2019 was £1,407.2 billion, up from £1,347.4 billion as at 31 March 2018.

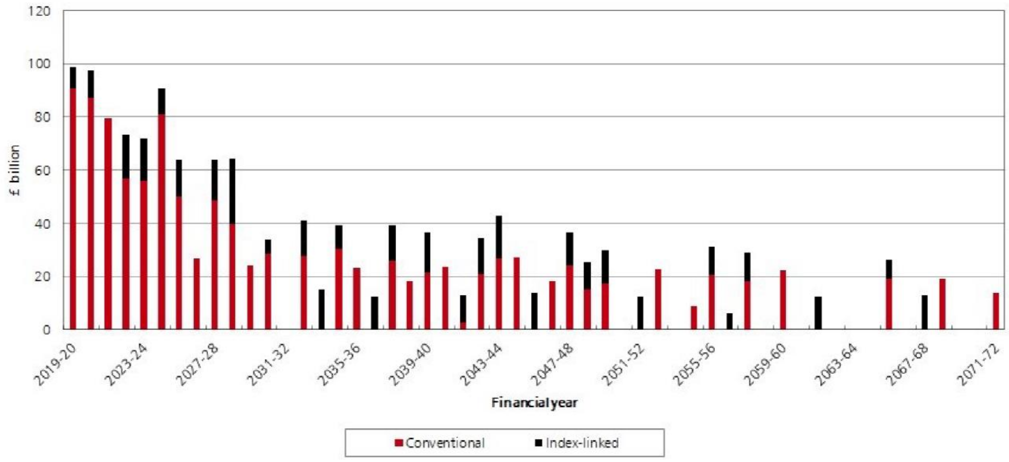
1.67 When setting a strategy for government borrowing, a number of risks are taken into account. These include interest rate risks, refinancing risk, inflation risk, liquidity risk and execution risk. Maintaining the relatively long average maturity of government debt was part of an expressed objective to mitigate refinancing risk.

Details of the government's debt management strategy and financing plans are set out in the Debt management report.[4]

1.68 Gilts are the primary form of government debt. The gilt redemption profile as at 11 February 2020, as disclosed in the Debt Management Office (DMO) Debt management report is included in chart 1.K. This shows that some gilts are due for redemption as far in the future as the 2070's, but the bulk are due for redemption before 2040.

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

Chart 1.K: Redemption profile of gilts as at February 2020 (£ billion)



Source: Debt Management Office

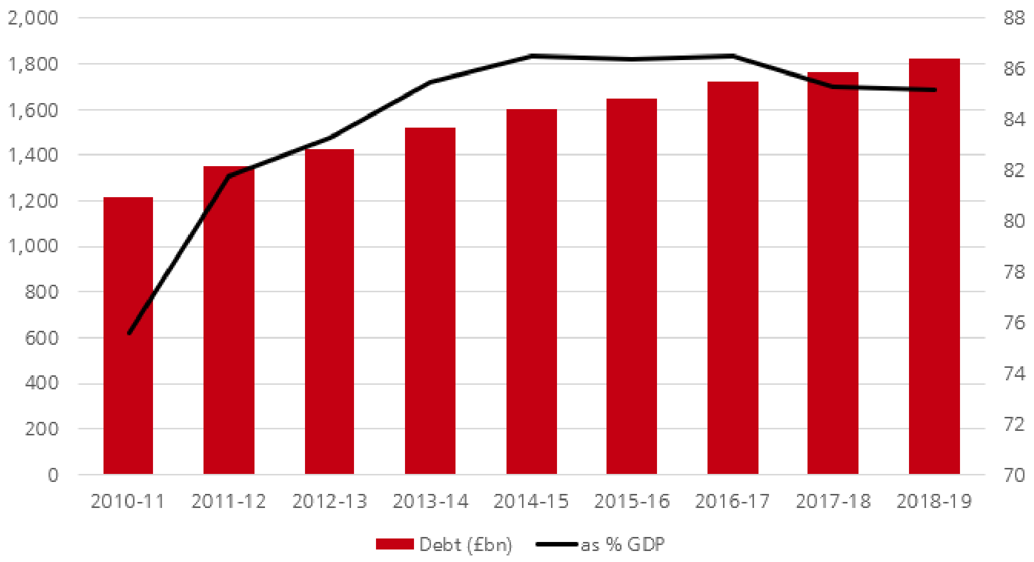
1.70 At the end of the financial year ending March 2019, UK general government gross debt was £1,821.3 billion, equivalent to 85.2% of gross domestic product (GDP) (source ONS).[5] This represents an increase of £57.5 billion since the end of the financial year ending March 2018, although debt as a percentage of GDP fell by 0.1 percentage points from 85.3% over the same period.

1.71 The average general government gross debt across the 28 EU member states at the end of December 2018 was 80.0% of GDP.

4 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871876/03032020_DMR_off-sen_v2_FINAL_with_jpegs_v2.pdf

5 https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/march2019#how-much-is-the-general-government-gross-debt

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



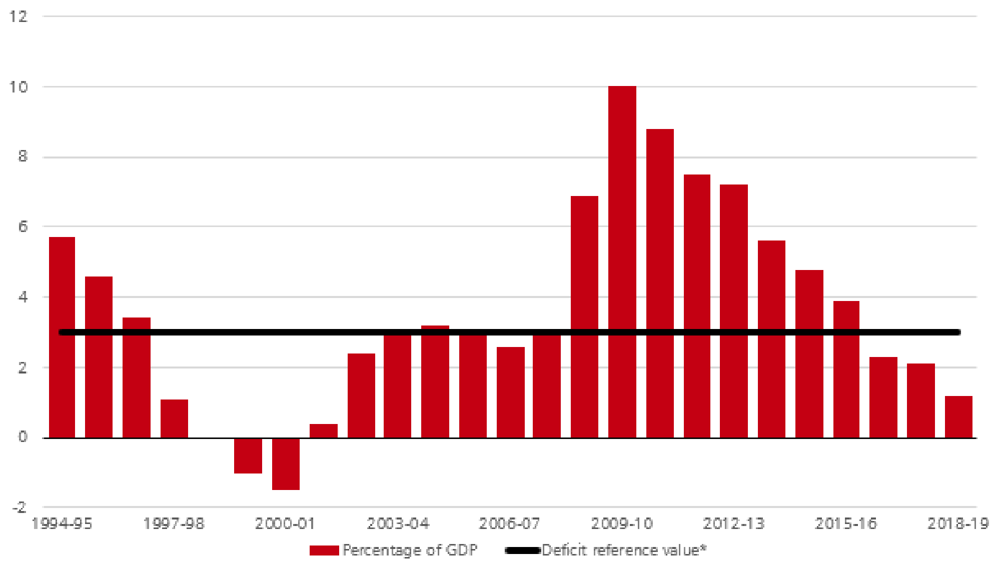
Source: Office of National Statistics

1.72 In the financial year ending March 2019, the UK general government deficit was £25.5 billion, equivalent to 1.2% of gross domestic product (GDP) (source ONS);[6] the lowest since the financial year ending March 2002 when it was 0.4%. This represents a decrease in the deficit of £17.1 billion compared with the financial year ending March 2018.

1.73 General government net borrowing has been below 3% of GDP for the third consecutive year since the financial year ending 2008.

[6] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/march2019#how-much-is-the-general-government-deficit

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



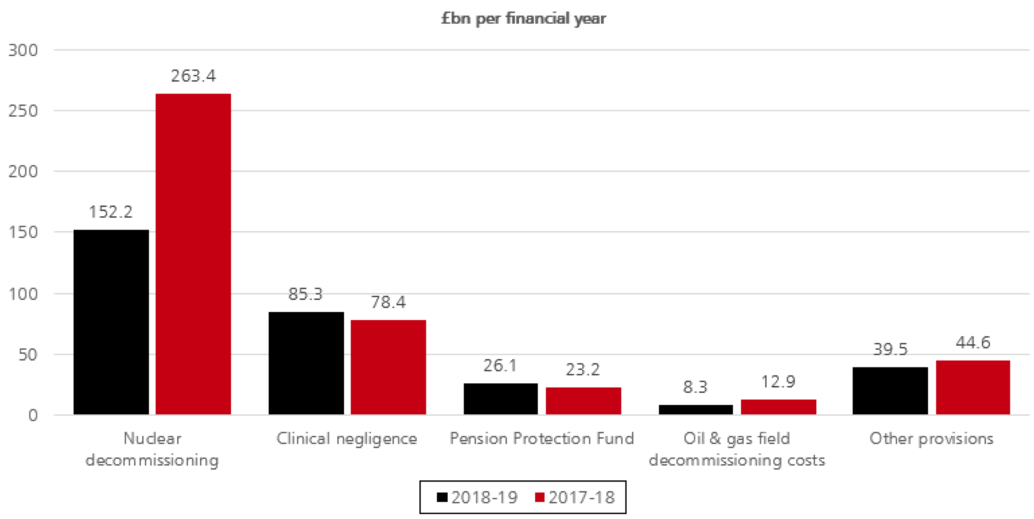
* The deficit reference value of 3% is the level set as part of the Treaty on the Functioning of the European Union (TFEU). The idea is that EU member states apply budgetary discipline to enable a 3% deficit to GDP ratio.

Source: Office of National Statistics

Provisions £311.4 billion

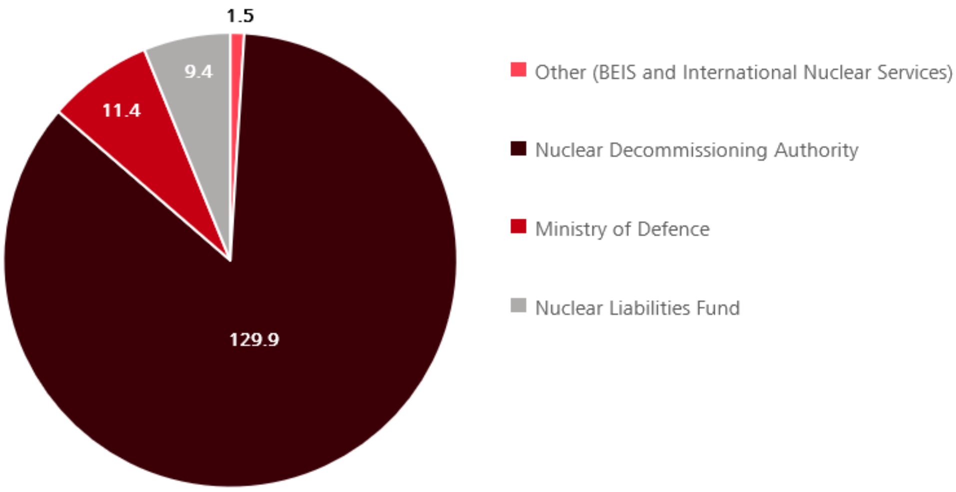
1.74 Total provisions decreased by 26.3% (or £111.1 billion) from £422.5 billion in 2017-18 to £311.4 billion in 2018-19. £101.5 billion of the decrease in provisions was due to changes in the discount rate. For more information on the impact of discount rates on the value of the provision, please see Note 22 in the notes to the accounts.

Chart 1.N: Movement by types of provisions



Nuclear decommissioning provisions £152.2 billion

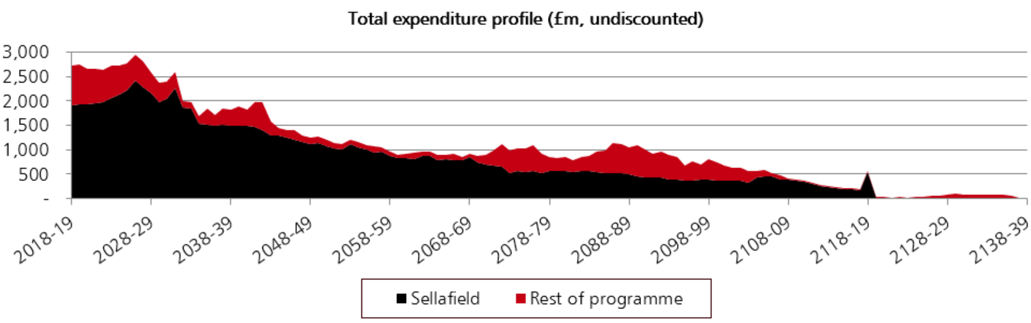
Chart 1.O: Breakdown of the nuclear decommissioning provision (£ billion)



1.75 The provision for nuclear decommissioning decreased by £111.2 billion, from £263.4 billion in 2017-18 to £152.2 billion in 2018-19. £96.0 billion of this decrease is due to the change in discount rates, and £14.6 billion of this is a result of the discount rate unwinding.

1.76 Chart 1.P illustrates the expected profile of pay-outs by the Nuclear Decommissioning Authority (NDA) which total £123.3 billion before discounting and £129.7 billion after discounting. This is the largest portion of the total provision of £152.2 billion.

Chart 1.P: Expected profile of pay-outs by the NDA



Source: Department for Business, and Industrial Strategy

1.77 NDA sites made steady progress during 2018-19 in their long-term clean-up mission. Magnox placed its first site into formal care and maintenance, with the approval of the Office for Nuclear Regulation. Bradwell became the first UK commercial nuclear power station to be delivered into care and maintenance.

1.78 Over the last two years, NDA have undertaken a wholesale review of their resources, their capability, their structure, their culture and their relationships with the 17 sites that make up their estate.

Box 1.E: Nuclear Sector Deal

A sector deal between government and the nuclear industry was published by the Department for Business, Energy and Industrial Strategy in June 2018.[a] This sector deal builds on the government's historical partnership with the UK nuclear sector.

It ensures that the UK's nuclear sector remains cost competitive with other forms of low-carbon technologies to support the governments Clean Growth Strategy and Grand Challenge. Through adopting new construction techniques and innovative approaches to manufacturing, the deal will reduce the costs of building new reactors in a way that builds domestic supply chain capability and skills.

a https://www.gov.uk/government/publications/nuclear-sector-deal

1.79 The NDA has identified the steps that they need to take to deliver their mission of releasing their sites for other uses. Two of their strategic outcomes have been achieved and good progress is being made with the safe management of nuclear inventory and reduction of its risks. More strategic outcomes will be achieved with the closure of the reprocessing facilities and the building of new modern treatment and storage facilities to manage nuclear material and waste.

Clinical negligence provision £85.3 bn

1.80 The Department of Health and Social Care provides for future costs in a number of cases where it is the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence.

1.81 The provision for clinical negligence claims increased by £6.9 billion or 8.8% in 2018-19, from £78.4 billion to £85.3 billion. The increase in provision is a result of an increase in expected future pay-outs, offset partially by pay-outs made in year, and provisions not required being written back. In addition to the clinical negligence provision, £50.8 billion (2017-18: £47.3 billion) is included as a contingent liability for clinical negligence.

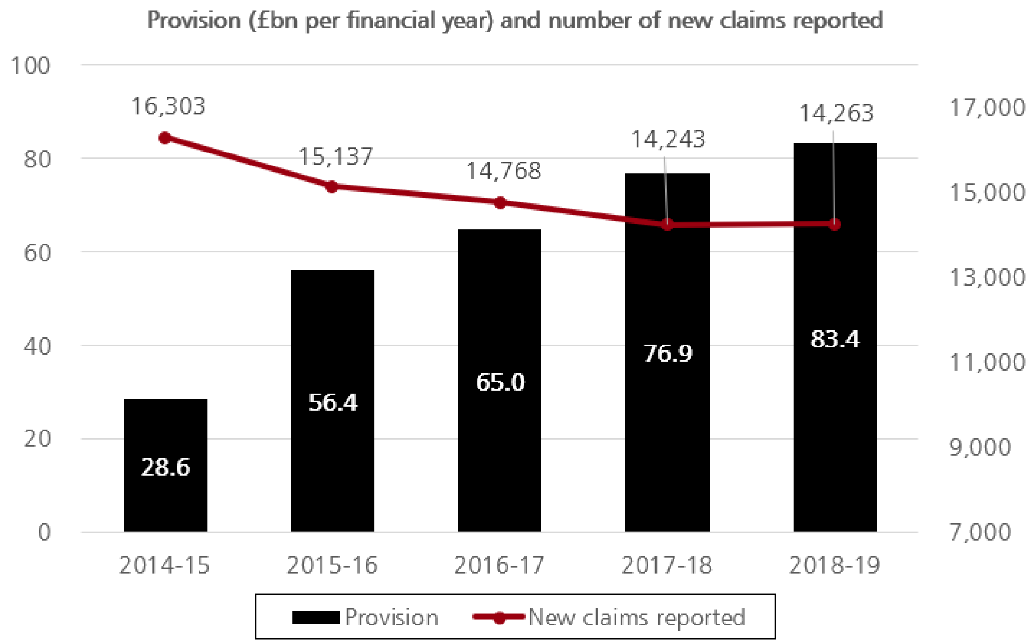
1.82 NHS Resolution makes a provision in its accounts for the likely value of future claims payments, and records contingent liabilities that represent possible additional claims payments to those already provided for. More information on contingent liabilities is included in Notes 29 and 30 to the accounts.

1.83 Most the UK government's clinical negligence claims are managed by NHS Resolution, who handle both clinical and non-clinical claims relating to the NHS in England. In 2018-19, they received 10,678 new clinical negligence claims, compared to 10,673 in 2017-18, a relatively flat profile with an increase of five claims (0.08%). The number of new non-clinical claims, typically employers' and public liability claims, rose from 3,570 received in 2017-18 to 3,585 in 2018-19, an increase of 0.42%. Further information on claims can be found on Page 17 of NHS Resolution 2018-19 account.

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

1.85 Although the volume of new claims increased by a total of 0.1%, the value of these claims has increased by 5.9%, and the overall provision increased by 8.5%. The provision for liabilities has increased from £77 billion at 31 March 2018 by £6.4 billion, to £83.4 billion at 31 March 2019. This is the value of liabilities arising from incidents that occurred before 31 March 2019 at current prices, both in relation to claims received, and NHS Resolution's estimate of claims they are likely to receive in the future from those incidents which have occurred but have yet to be reported as claims (incurred but not reported, IBNR). Chart 1.Q provides further information.

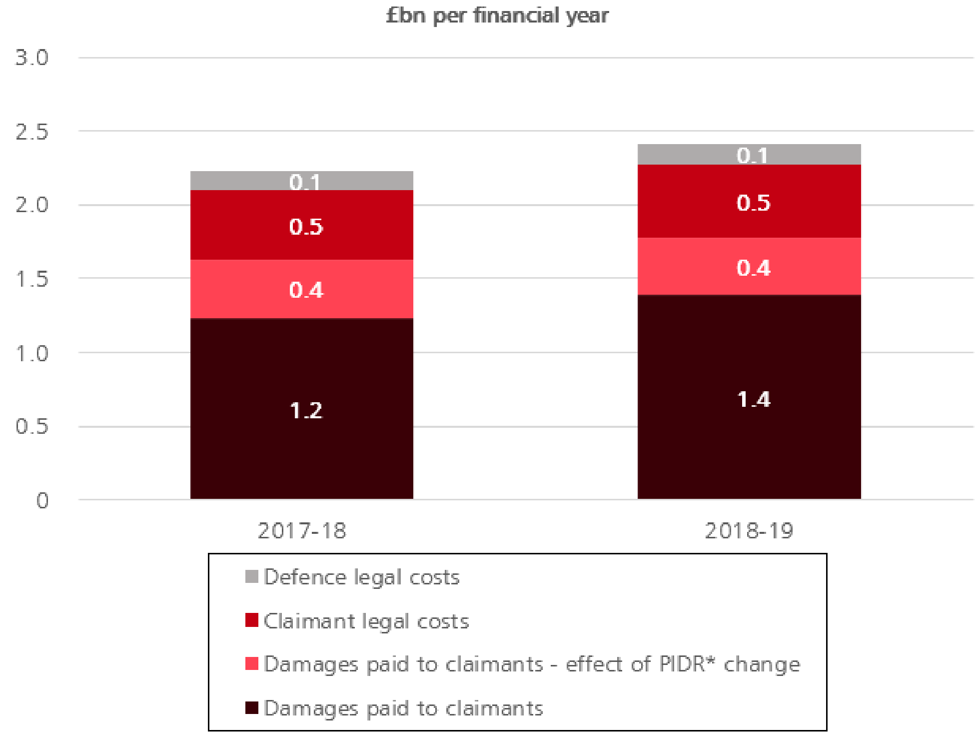
Chart 1.Q: NHS resolution total provision for clinical and non-clinical negligence claims, and number of new claims reported in year



Source: NHS Resolution 2018-19 accounts

1.86 Chart 1.R below provides a breakdown of the £2.4 billion of pay-outs made by NHS Resolution during 2018-19.

Chart 1.R: NHS Resolution pay-outs in year



* Where damages for personal injury take the form of a lump sum, the award is adjusted to reflect the anticipated return that the claimant is expected to make by investing the money. This adjustment is the personal injury discount rate (PIDR).

Source: NHS Resolution 2018-19 accounts

1.87 The provision is an estimate and is subject to sensitivities in changes in key assumptions. In the NHS Resolution accounts, for the Clinical Negligence Scheme for Trusts (CNST) the accounts estimate a figure of £46.5 billion, with a reasonable upper range of £54.6 billion, and a reasonable lower range £39.8 billion. Further information can be found in the accounts of NHS Resolution.

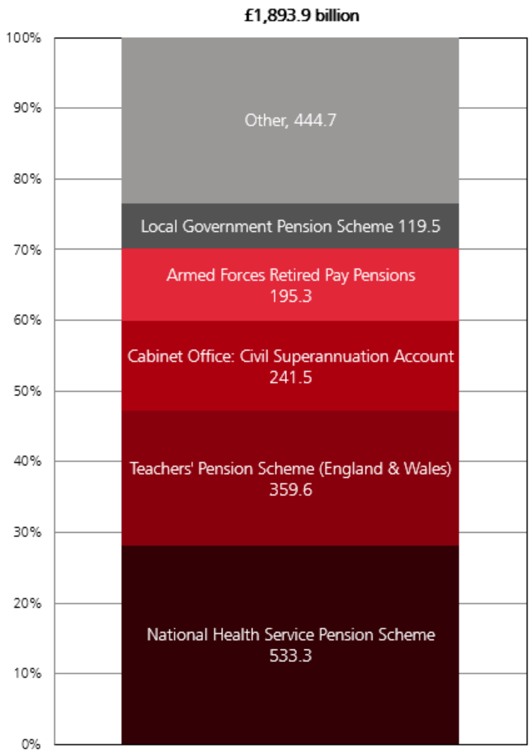
1.88 NHS Resolution has completed two years of their five-year strategy laid out in April 2017. In the first year of their strategy, they mediated more claims than any year in the past. In their second year, the number of mediations increased by 110% to 380 mediations. This exceeds the number of clinical negligence trials (62) six-fold.

1.89 An increase in mediations reduces the rate of claims going into formal litigation, reducing the stress of that process for patients and healthcare staff and contributing to a further decrease in claimant legal costs, helping to reduce the overall cost to taxpayers.

Public sector pensions £1,893.9 billion

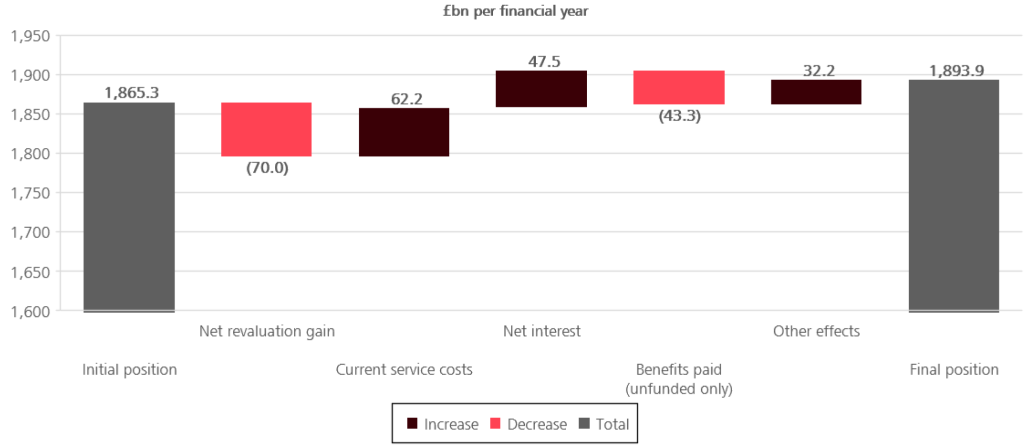
1.90 The net public sector pension accounts for 41.6% of total liabilities and is the largest liability in WGA. The net liability increased by £28.6 billion or 1.5% in 2018-19. It does not include the state pension, which is social security expenditure.

Chart 1.S: Net public sector pension breakdown £billion



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

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



Sargeant and McCloud

1.92 Between 2014 and 2015, the government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' schemes, as part of the reforms, gave rise to unlawful discrimination. These are known as the

McCloud and Sargeant cases. On 27 June 2019, the Supreme Court rejected the government's appeal on this judgment.

1.93 On 15 July 2019 the Chief Secretary to the Treasury made a written ministerial statement confirming that, as 'transitional protection' was offered to members of all the main public service pension schemes, the difference in treatment will need to be removed across all those schemes for members with relevant service.

1.94 All of the main public service pension schemes are therefore impacted by the McCloud and Sargeant cases. This has increased their accounting liabilities with past service costs totalling £31.8 billion in 2018-19 (2017-18: £1.3 billion). These increases are estimates of extra liabilities from expected changes to benefits as a result of removing the transitional protection. Any differences between the assumed and final remedy across public service pension schemes could lead to further past service costs in later accounts. As with other liabilities, costs associated with this remedy will vary in accounts as assumptions change.

The largest public service pension schemes

1.95 Four single unfunded pension schemes make up 70.2% of the pension liability. These are: the National Health Service Pension Scheme (NHSPS), Teachers' Pension Scheme (TPS) (England & Wales), Cabinet Office Civil Superannuation (PCSPS), and Armed Forces Pension Scheme (AFPS).

Snapshot of the four biggest pension schemes

Pension Scheme	Change in liability	Active Members *	Past Service Costs (PSC)	PSC: Portion of scheme liability	Admin costs	Amount met by levy
NHSPS	⇧ £7.2 bn	1,561,530	£7.2 bn	1.40%	£36.2 m	£31.1 m
TPS	⇩ £1.9 bn	729,471	£7.0 bn	2.00%	£18.0 m	£20.0 m
PCSPS	⇧ £0.2 bn	495,167	£3.8 bn	1.60%	£42.3 m	£29.4 m
AFPS	⇩ £0.2bn	305,473	£1.9 bn	1.00%	£16.3 m	n/a

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

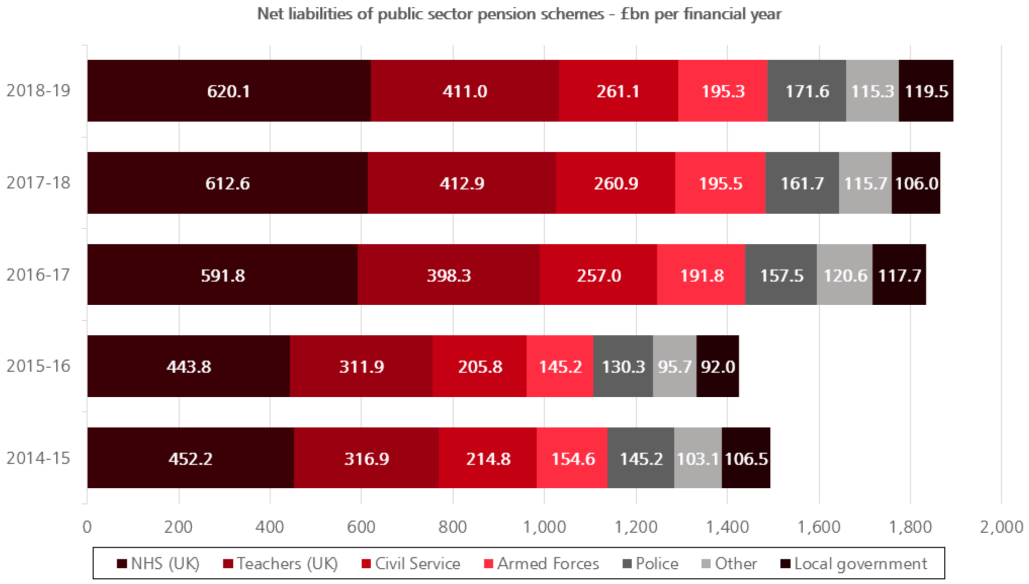
1.96 The four main schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". Pensions in payment and deferment are increased based on the change in the Consumer Price Index (CPI) in the 12 months to the end of the preceding September. As CPI at September 2017 was 3%, there was a 3% increase to these pensions in April 2018.

1.97 These four schemes are unfunded, defined benefit occupational pension schemes. The pay-as-you-go nature of these schemes means that pension contributions of employees and employers are used to offset payments to current pensioners.

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

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

Chart 1.U: Pension liabilities over time



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

Discount rate

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

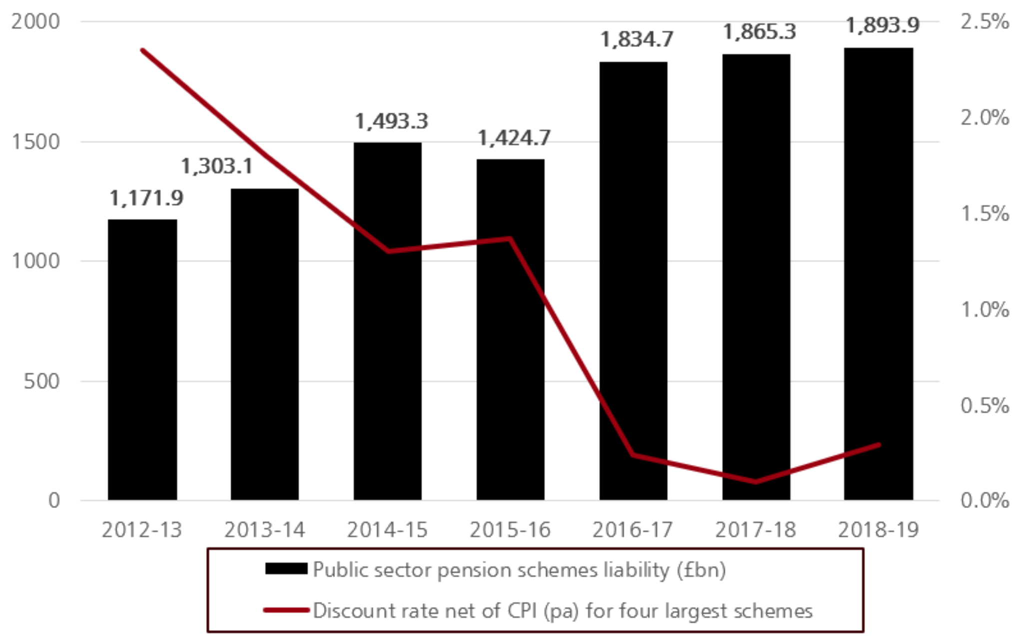
1.102 The discount rate generally has a significant impact on the liability because many of the benefit payments that the schemes expect to make fall decades into the future, and so a small change in the per annum discount rate has a large impact on the liability.

1.103 Chart 1.V illustrates how the trend in this net discount rate compares with the trend in the public sector pension scheme liability over recent years. In 2018-19, there was an increase to the central government net discount rate, from 0.1% to 0.29%. This alone would be expected to cause a gain on revaluation to the pension liability of around £75 billion. The actual revaluation gain from changes in assumptions of £56.0 billion also includes the impact of other actuarial assumptions, as summarised below.

1.104 The liability increased slightly in 2018-19 despite the revaluation gain. This is largely due to the past service costs that have arisen due to the McCloud and Sargeant litigation.

1.105 The net discount rate for the year 2019-20 (for the central government schemes) has been set at -0.5% pa (a decrease from 0.29% pa)[7] with individual entities currently preparing their 2019-20 resource accounts. We therefore anticipate an increase of perhaps around £350 billion in the reported public sector pension scheme liability when the 2019-20 WGA is published next year, solely as a result of this change in the net discount rate.

Chart 1.V: Discount rate trend



Actuarial assumptions

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

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

1.107 Gradual changes in workforce size over many years (e.g. a reducing civil service or growing health service) can cause a gradual shift in the liability, as a larger

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

or smaller value is added to the liability annually to reflect the pension promised to the workforce for their service that year.

1.108 Step changes in the liability can occur when key assumptions or data are updated, such as the ONS publication of population projections which are used to set life expectancy assumptions. Some schemes, including the four largest public sector pension schemes, moved from using ONS 2014 life expectancy assumptions to ONS 2016 assumptions in 2017-18. The ONS 2016 projections assume lower future life expectancy, compared to the ONS 2014 projections. This change was largely driven by higher observed mortality over 2014 to 2016 than was expected in the previous assumptions.

Affordability of public sector pensions

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

1.110 For example, when monitoring the fiscal implications of the schemes, the government considers the OBR's long-term projections of public sector pension scheme expenditure, as published in their Fiscal Sustainability Reports. These look at the future expected pension cash flows as a percentage of GDP. The next Fiscal sustainability report is due to be published on 14 July. This report will incorporate the impact of the coronavirus.

Box 1.F: How are public sector pension liabilities treated in the National Accounts?

WGA recognises future pension liabilities when the rights accrue to employees, even though payment is not yet due. The National Accounts only recognises expenditure as it is paid out to retirees and does not recognise a future liability. The expenditure recognised in National Accounts is reduced by the amount received through employer and employee contributions.

Box 1.G: Actuarial Valuations

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

What is an actuarial valuation?

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

Setting assumptions

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

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

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

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

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

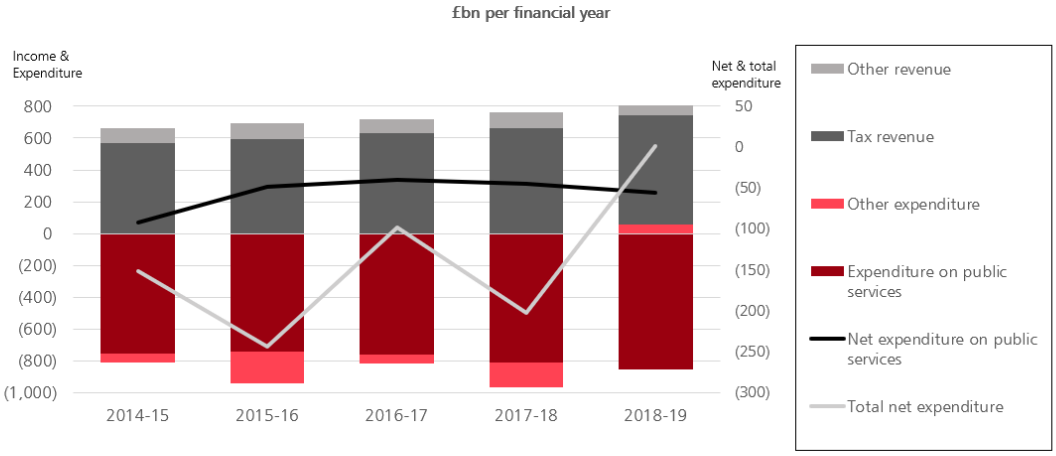
Data

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

Report on Income and Expenditure

1.111 Over the last 5 years the net expenditure on public services shown by the black line in chart 1.W, has reduced by 38.5% (£35.2 billion). The most significant fall in net expenditure for public services was in 2015-16, where a 5.2% increase in income was accompanied by a 1.2% fall in total expenditure on public services. In 2015-16, the main driver of the fall in public service expenditure was a 64.6% (£16.8 billion) decrease in the "increase in provisions" on the SOCNE.

Chart 1.W: Income and Expenditure trends



1.112 Conversely, total net expenditure for the year (red line) fluctuates radically from year to year. This is because of provision financing costs which include the impact of changes in discount rates used for provisions. In 2016-17 this was £9.3 billion, increasing to £93.4 billion in 2017-18, and decreasing to -£-115.8 billion in 2018-19. More information can be found in note 11 of the financial accounts.

Box 1.H: COVID-19 update- impact on public finances May 2020

Box 1.A looked at the impact of COVID-19 on assets and liabilities. This section focuses on the impact of COVID-19 on income and expenditure.

In May 2020, HMRC cash receipts fell by 43% (£19.4 billion) on a year earlier. VAT accounted for the bulk of the deterioration as the Government's VAT deferral scheme left VAT receipts negative in May (-£0.6 billion). Income tax, corporation tax and fuel duties also saw sharp falls on a year earlier.[a]

Central government spending was up 48% (£30.6 billion) in May compared to the same period last year. Across April and May spending is up £65.8 billion on last year. reflecting the impact of the coronavirus job retention scheme (CJRS), additional grants to local authorities and higher public services spending, much of which was COVID-19 related (including NHS spending).

At this stage of the year, even in normal circumstances, expenditure data are highly provisional and subject to revision.

Looking ahead: Impact of COVID-19 on income & expenditure on public services in future years

Taxation income is anticipated to fall slightly in 2019-20 and more significantly in 2020-21 as a result of COVID-19. This will affect most tax areas: income tax, national insurance contributions, VAT, corporation tax, council tax, national non-domestic rates and other taxes.

Expenditure on public services is expected to increase partly in 2019-20 and most significantly in 2020-21 as a result of COVID-19. Many areas of expenditure will be impacted including:

- social security benefits for increased claimants and changes to benefit levels
- staff costs to respond to increased administrative burdens in a number of departments
- purchase of goods and services for equipment and resources necessary to tackle the pandemic
- grants and subsidies to businesses

a https://obr.uk/docs/May-2020-PSF-Commentary.pdf

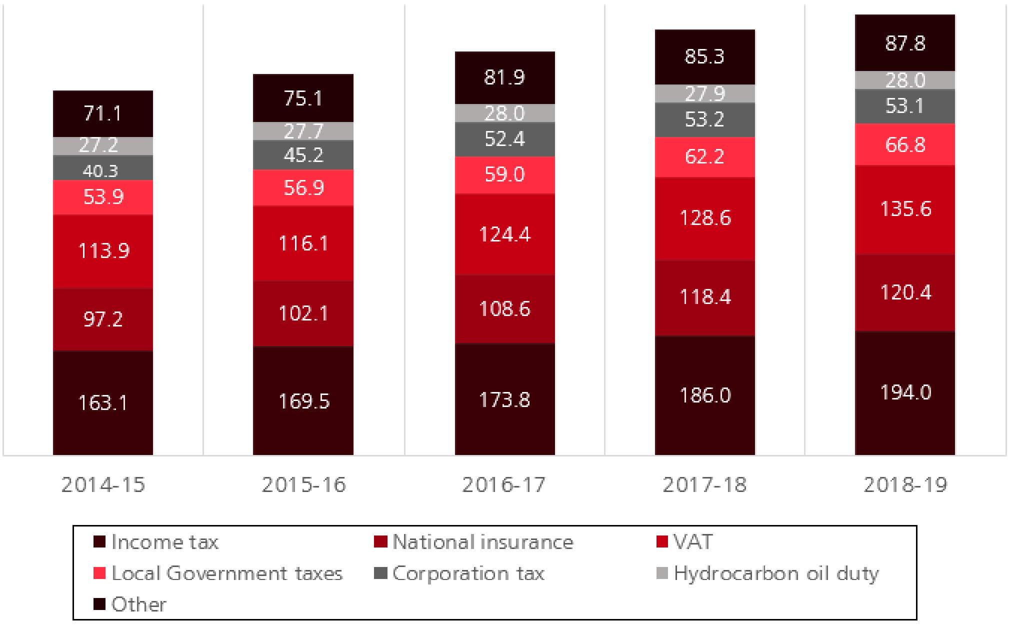
Income

The government received £795.6 billion in income

1.113 Taxation revenue makes up 86.2% (£685.7 billion) of total income, 90.3% of which is collected by HMRC. Taxation revenue is driven by the overall level of activity in the economy and by the rates of taxation, allowances and reliefs.

1.114 In 2018-19 HMRC achieved record total revenue figures, they had their best ever year for Self-Assessment returns filed online, and they brought in more money from tackling avoidance, evasion and non-compliance.

Chart 1.X: Taxation revenue over time (£ billion)



1.115 Income tax, National Insurance Contributions and VAT make up the three largest elements of total tax revenue, but a wide range of other taxes and duties are also factored in. The following snapshot summarises the key elements of total tax revenue in 2018-19.

Snapshot on taxation revenue

Income tax and National insurance

£314.4 bn ⇧ **3.3%** from 2017-18

The amount of revenue raised for these two taxes is closely linked to the number of people in employment and wage levels, both of which increased during this period.

Value Added Tax

£135.6 bn ⇧ **5.4%** from 2017-18

Receipts tend to rise over time because of economic growth, inflation and consumer spending. Higher receipts for the business services, banking and utilities sectors were seen during this financial year.

Corporation Tax

£53.1 bn ⇩ **0.1%** from 2017-18

Corporation Tax has remained relatively static.

Hydrocarbon oils

£28.0 bn ⇧ **0.4%** from 2017-18

The rates of duty for petrol and diesel have been frozen since 2011-12 and with consumption at similar levels year on year this has led to stable receipts.

Stamp Taxes

£16.4 bn ⇩ **4.7%** from 2017-18

First Time Buyers Relief claims (first full year), accounted for the majority of the decrease.

Alcohol

£12.1 bn ⇧ **5.2%** from 2017-18

The increase in receipts reflects increase in the rates of duty on 01 February 2019. It is also thought that the hot weather, the world cup and royal wedding could be responsible for increased alcohol consumption
leading to an increase in receipts.

Capital Gains Tax

£9.3 bn ⇧ **19.2%** from 2017-18

Movement in tax receipts is difficult to determine due to the underlying volatility of asset sales and the extent to which they generate capital gains. Timely information is not available due to the significant lag in declaration via Self Assessment. Revenue increased in line with Office of Budget Responsibility (OBR) forecasts.

Tobacco

£9.2 bn ⇧ **4.5%** from 2017-18

Rates of duty on tobacco products increased on 22 November 2017 and 29 October 2018 – both rate increases were between 4% to 6%.

Insurance Premium Tax

£6.4 bn ⇧ **3.2%** from 2017-18

Movement in tax receipts is driven by changes in tax rates and the cost and number of insurance policies. Tax rates have remained
the same since June 2017 and there is an indication that the total insurance market rose between 2017 and 2018.

A number of other taxes, including **Inheritance Tax, Bank Levy, Customs Duties** and **Vehicle excise** account for the remaining revenue.

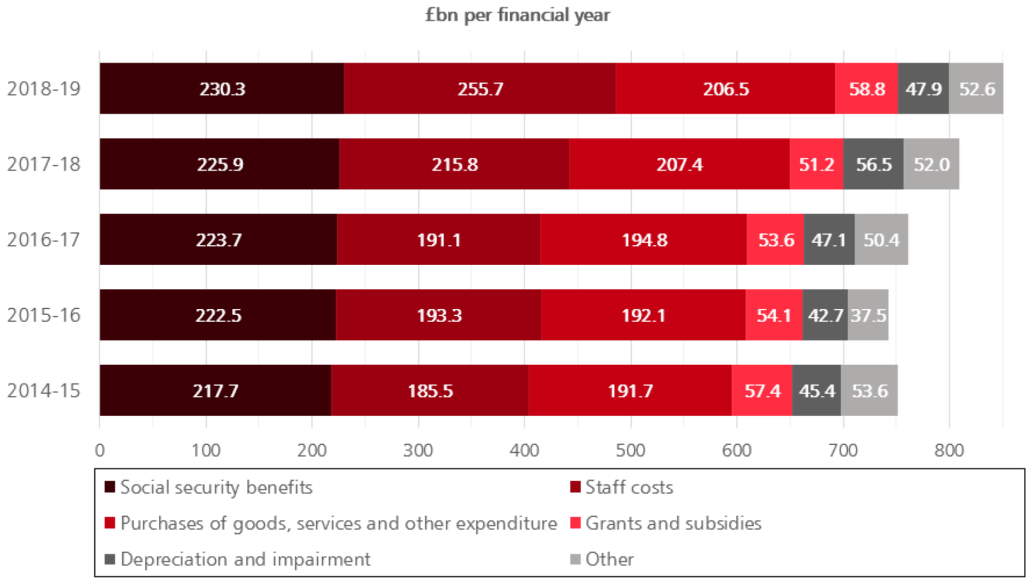
Source: HM Treasury and HM Revenue and Customs

Expenditure

Total Expenditure on public services is £851.8 billion

1.116 The government spent £851.8 billion on public services. The most significant elements were **social security benefits** of £230.3 billion (2017-18: £225.9 billion), **staff costs** of £255.7 billion (2017-18: £215.8 billion) and **purchase of goods and services** of £206.5 billion (2017-18: £207.4 billion), each of which is explored in more detail in the following sections.

Chart 1.Y: Expenditure trends



1.117 Overall, total expenditure on public services has increased by 13.4% over the last 5 years. The largest change for 2018-19 was an increase of £30.5 billion in past service costs for public sector pensions, which is included within 'staff costs'. This reflects the Court of Appeal ruling against the government in the two cases of Sargeant and McCloud. Further details can be found in note 24.

1.118 As well as WGA, the Treasury publishes the Public Expenditure Statistical Analysis (PESA)[8] and the Country and Regional Analysis (CRA).[9]

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

8 https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2019

9 https://www.gov.uk/government/statistics/country-and-regional-analysis-2019

Public Expenditure breakdown- Functional 2013-14 to 2018-19

Function	2018-19	% of total	2017-18 restated	2016-17	2015-16	2014-15	2013-14
	£bn		£bn	£bn	£bn	£bn	£bn
Social protection	274.7	36%	268.7	265.4	264.9	261.1	254.2
Health	152.9	20%	147.3	142.6	138.5	134.1	129.4
Education	89.4	12%	85.9	84.9	84.9	85.1	84.7
Defence	40.2	5%	38.7	37.1	36.6	36.7	36.4
Public order and safety	32.4	4%	31.5	30.1	30.2	30.5	29.6
Transport	32.6	4%	30.3	28.8	27.9	22.0	20.8
Other economic affairs	27.4	4%	22.8	20.4	19.1	19.1	20.1
Environment protection	11.2	2%	11.8	11.0	11.6	11.6	11.2
Housing and community amenities	12.5	2%	11.3	10.3	9.8	10.3	9.9
Recreation, culture and religion	11.2	2%	11.5	11.6	11.4	12.4	11.6
General public services	25.3	3%	23.0	23.4	21.6	22.0	21.0
Debt interest	38.5	5%	44.9	40.2	38.0	37.4	40.1
EU transactions	7.9	1%	5.4	4.7	7.7	6.2	7.2
Public services expenditure per PESA	756.2	100%	733.1	710.5	702.2	688.5	676.2
Add: Depreciation and impairment	47.9		56.5	48.6	42.7	45.4	51.0
Add: Increase in provisions	21.0		15.2	18.6	9.2	26.0	19.5
Accounting adjustments	26.7		4.0	(15.1)	(11.9)	(8.6)	2.2
WGA expenditure on public services	851.8		808.8	762.6	742.2	751.3	748.9

Source: Public Expenditure Statistical Analysis 2019 table 4.2 [a]

Public Services expenditure breakdown – Country and Regional 2013-14 – 2018-19

Region	2018-19	% of total	2017-18 restated	2016-17	2015-16	2014-15	2013-14
	£bn		£bn	£bn	£bn	£bn	£bn
North East	27.1	4%	25.7	25.6	25.3	24.8	24.5
North West	71.9	9%	70.9	68.3	67.6	66.3	64.8
Yorkshire and the Humber	50.0	6%	48.5	48.1	47.7	46.8	45.5
East Midlands	41.3	5%	39.9	39.1	38.6	38.2	37.0
West Midland	54.5	7%	52.2	51.5	50.2	50.3	48.2
East	54.2	7%	51.5	49.8	49.5	48.3	46.6
London	92.9	12%	90.9	88.6	87.6	84.5	83.3
South East	78.6	10%	75.1	73.5	71.1	69.3	67.8
South West	49.9	7%	48.0	46.9	45.9	45.3	43.9
Scotland	61.2	8%	58.7	57.4	56.2	54.9	54.1
Wales	33.4	4%	32.4	31.4	31.0	30.6	30.1
Northern Ireland	21.8	3%	20.8	20.5	20.2	20.3	19.9
Outside UK	30.2	4%	26.7	25.4	25.8	27.1	26.7
Non-identifiable expenditure	106.1	14%	109.3	102.9	101.1	96.4	83.4
Public sector expenditure on services	773.1	100%	750.6	729.0	717.8	703.1	675.8
Add: Depreciation and impairment	47.9		56.5	48.6	42.7	45.4	51.0
Add: Increase in provisions	21.0		15.2	18.6	9.2	26.0	19.5
Accounting adjustments	9.8		(13.5)	(33.6)	(11.9)	(23.2)	2.2
WGA expenditure on public services	851.8		808.8	762.6	742.2	751.3	748.9

Source: Country and Regional analysis 2019 table A.1 [a]

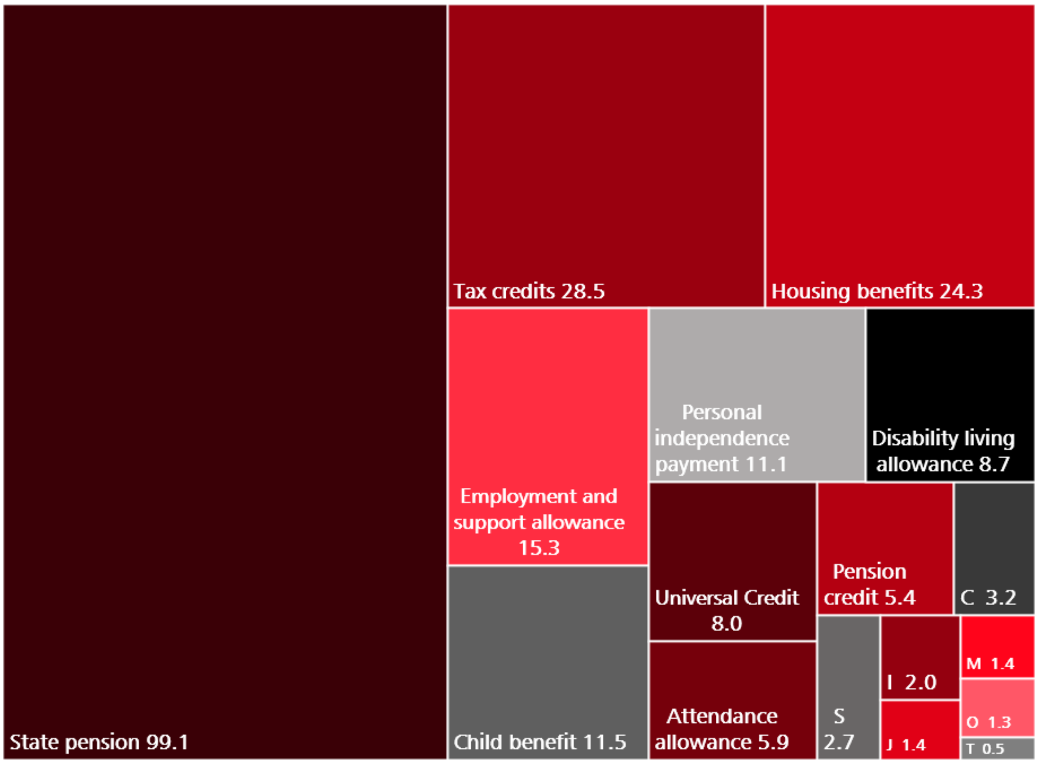
a Table may not agree with PESA/CRA due to rounding

Social security benefits totalled £230.3 billion

1.120 Government spending on social security benefits increased by 1.9% in 2018-19 compared with 2017-18. It has increased by 5.8% over the last five years. The largest element of social security benefits is the state pension. State pension expenditure increased by £3.0 billion as a result of the annual uprating in line with the "triple lock" at 2.5%. There were around 12.8 million pensioners receiving a State Pension as at August 2018, with around 1.2 million of them living overseas.

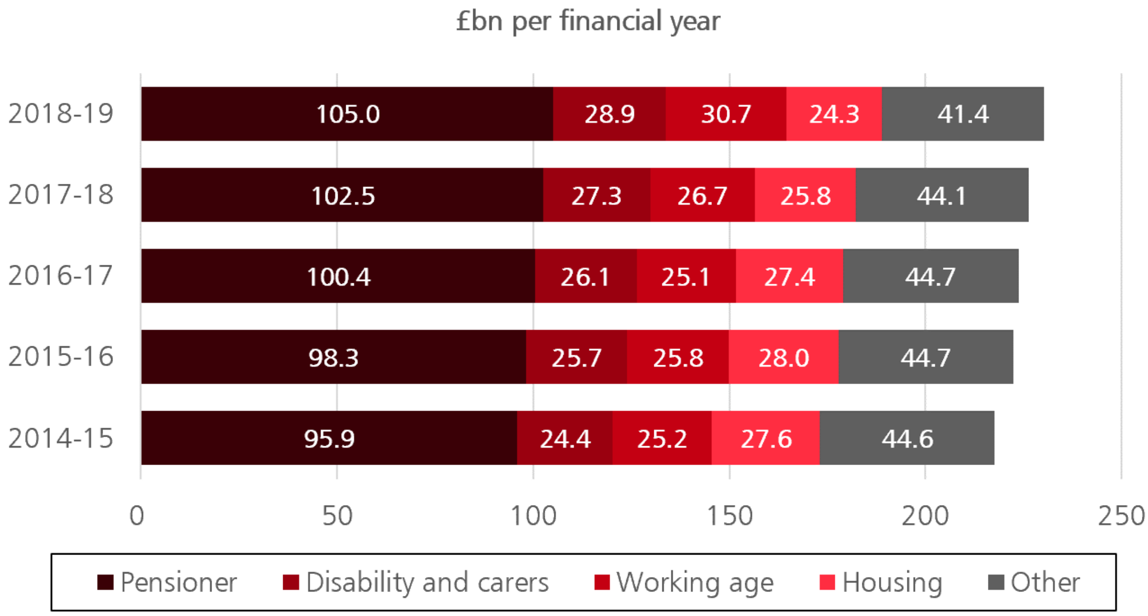
1.121 The government's State Pension triple lock ensures that pensioner incomes are protected against inflation: this increases each year by whichever is the highest out of prices, average earnings or 2.5%.

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



C	Carer's allowance	S	Statutory sick pay and maternity pay
I	Income support	J	Jobseeker's allowance
O	Other working age benefits	T	TV licences for the over 75's
M	Miscellaneous benefits		

Chart 1.AA: Social security benefits over time



Staff costs totalled £255.7 billion

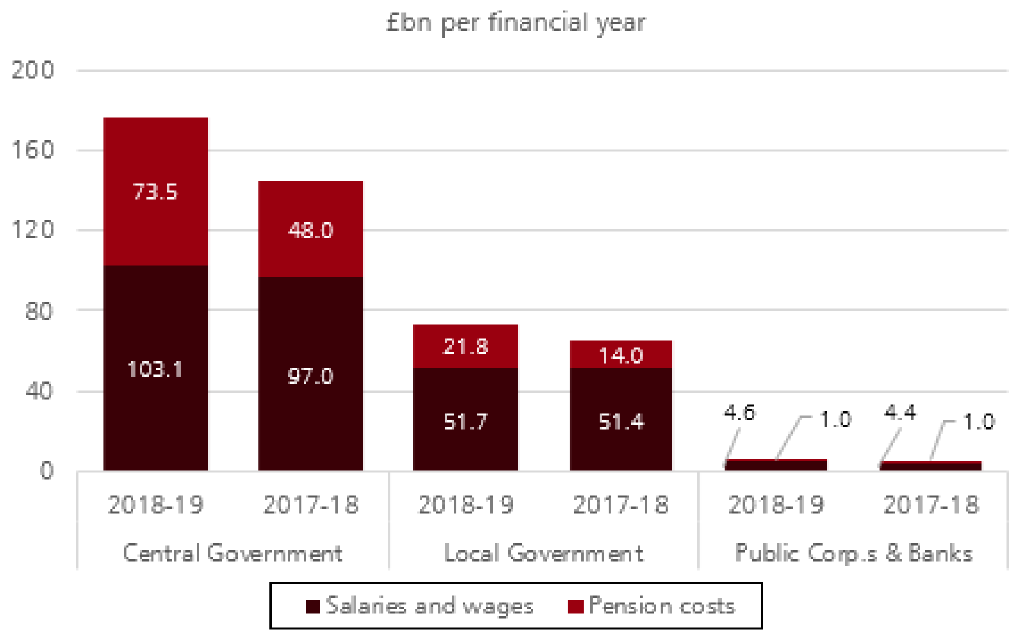
1.122 Staff costs comprise expenditure on salaries and wages, and expenditure on pension costs.

1.123 In 2018-19, the cost of salaries and wages was £159.4 billion (2017-18: £152.8 billion), an increase of 4.3% on the prior year. This compares to a 1.4% increase in staff numbers in 2018-19, and a 1.2% increase in staff costs in 2017-18. The move away from the previous 1.0% pay restraint policy announced in September 2017 took effect for staff within the NHS from 1 April 2018, with the implementation of the Agenda for Change three year deal. In July 2018, the government also announced pay rises for an additional 1 million public sector workers,[10] to be funded from departmental budgets.

1.124 Pension costs increased by 52.9% to £96.3 billion in 2018-19 (2017-18: £63.0 billion), reflecting a £30.5 billion increase in past service costs. This is largely a result of the Court of Appeal ruling against the government in the two cases of Sargeant and McCloud. This rule resulted in an increased liability in many different pension schemes. Further details can be found in note 24.

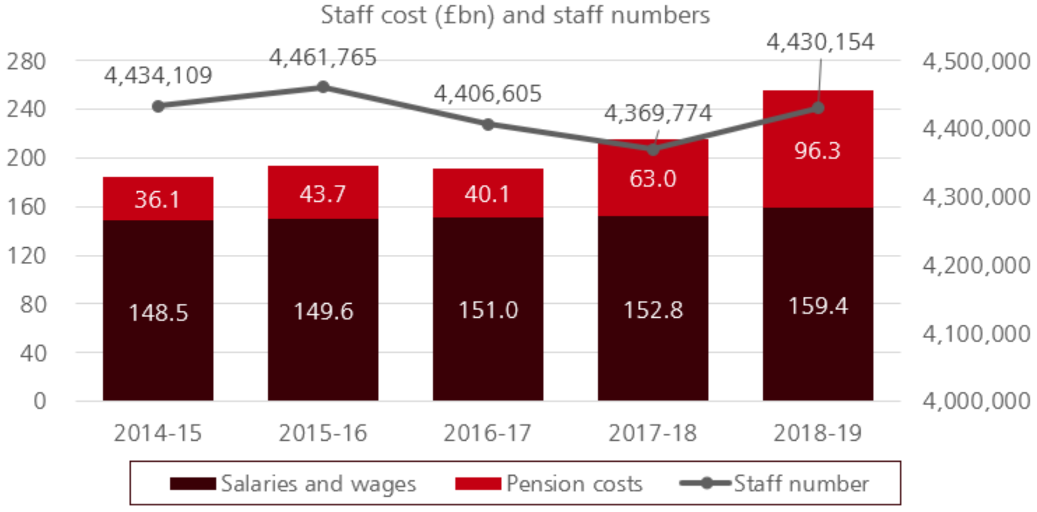
1.125 Further details on staff costs and numbers are included in the staff cost note 7. Further information on public sector pension costs, and the drivers of changes to these costs, are included in the pension liabilities section of Chapter 1 and in Note 24 to the accounts.

Chart 1.BB: Staff costs by sector



10 https://www.gov.uk/government/news/around-one-million-public-sector-workers-to-get-pay-rise

Chart 1.CC: Staff cost and staff numbers over time

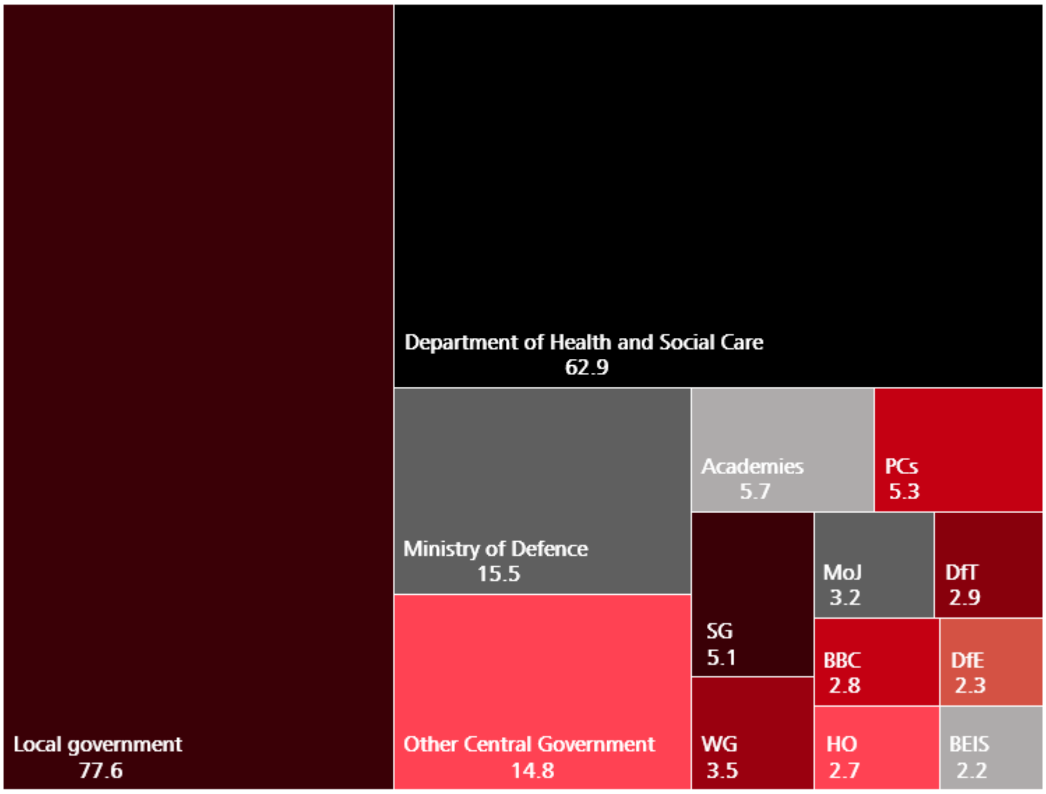


1.126 Staff numbers have fallen slightly over the last five years, decreasing by only 3,955 or 0.1%. This general trend of a fall in staff numbers is offset by increases in staff numbers over the last year. Key areas we see increases in are the health sector and the academy sector. Increases in health sector workers are driven by priority policy work in preparation for EU Exit and to meet an increase in demand in healthcare. Increases in the academy sector are broadly consistent with the increase in the number of academies.

Purchase of goods and services totalled £206.5 billion

1.127 Purchase of goods, services and other expenditure decreased 0.4% or £0.9 billion compared to 2017-18. The balance can be analysed by identifying which entities make up the largest balances.

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



PCs	Other Public Corporations	SG	Scottish Government
DfT	Department for Transport	MoJ	Ministry of Justice
WG	Welsh Government	BBC	British Broadcasting Corporation
HO	Home Office	BEIS	Department for Business, Industry Strategy
DfE	Department for Education		

1.128 The Department of Health and Social Care (DHSC) reported the largest expenditure of purchase of goods and services of £62.9 billion. The Secretary of State for Health and Social Care and other departmental ministers are accountable to Parliament for the provision of the comprehensive health and social care service in England. To enable the system to work flexibly, the critical day-to-day operational decisions are made by the professionals working in provider organisations, supported by the strategic and regulatory functions carried out by DHSC's arms-length bodies.

1.129 The Ministry of Defence has the second largest Departmental spend for purchase of goods and services at £15.5 billion. The Ministry of Defence plays a pivotal role in providing defence and security for people of the United Kingdom across the globe. The Modernising Defence Programme (MDP) was launched in January 2018 to strengthen and modernise the Armed Forces in the face of a more complex and challenging international security situation. The MDP has established a set of policy approaches and capability investments that will help the UK to keep on track to deliver the right UK Defence for the coming decade.

1.130 Other large departmental spend includes academies (£5.7 billion) and Scottish Government (£5.1 billion). In all cases expenditure excludes transfers to other parts of the public sector (for example from the Department for Education to academies or local authorities).

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

Box 1.I: What is not included in WGA

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

a) WGA does not include a liability for future state pension payments. This is because the payments are only recognised when they fall due, which is on an ongoing basis. Similarly, future payments for public services are also not recognised unless contractually committed.

b) WGA does not recognise an asset for future tax revenue, as the revenue can only be recognised as it falls due.

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

d) WGA cannot currently provide in depth analysis of expenditure, particularly purchases of goods and services. This is because different organisations have different definitions of expenditure categories. Treasury continues to review this area to make improvements, and provide supplementary information.

e) WGA follows the IFRS definition of Intangible assets. This means that there are strict rules over what can and cannot be recognised on the Statement of Financial Position. There is a broader definition of intangible assets which encompasses knowledge, techniques and know how, which supports broader consideration of public value. This is known as Knowledge Assets, however they are not captured in WGA. At budget 2018 HM Treasury published a report that highlighted the scale of knowledge assets held by the public sector.[a]

f) WGA does not include full forecasts of the financial effects of COVID-19 or EU exit. Available information on EU exit is included in paragraphs 1.16 to 1.34. Information on the potential effects of COVID-19 is included in Table 1 A.

a Getting smart about Intellectual Property and other intangibles in the public sector' HMT, Budget 2018

Other matters of note

PFI and PF2

1.132 Government has historically brought private investment into government-funded projects in sectors such as health, education, justice, defence and transport using Public Private Partnerships (PPPs). PPPs are long-term contractual arrangements, usually for the construction and maintenance of an infrastructure asset over 25-30 years.

1.133 Until 2012, the Private Finance Initiative (PFI) was the government's preferred model of PPP. In 2012, PFI was replaced with Private Finance 2 (PF2), which was only used six times. In 2018, both PFI and PF2 were retired for use on future projects as a result of concerns about the fiscal risk they created, their inflexibility, and operational complexity. At 31 March 2018, there were 704 current PFI and PF2 projects with a capital value of £57.0 billion, a reduction from 715 projects with a value of £59.0 billion at 31 March 2017[11].

1.134 PFI assets make up a small but important part of the government's asset base. PFI assets are paid for in instalments. The charge covers the cost of the asset, an interest charge to reflect the financing of the asset, and a service charge for ongoing maintenance and use of the asset.

1.135 In addition to assets and liabilities on the Statement of Financial Position, PFI contracts also commit the government to paying service charges. These are the costs of maintaining the purchased assets and are recognised as the services that trigger these payments are delivered. Whilst not recognised as a liability on the Statement of Financial Position, WGA discloses the total contractual commitment.

1.136 The government set up a Centre of Best Practice in 2018 to help NHS Trusts improve the management of legacy PFI contracts. At Budget 2020, the government announced that it would go further and provided £2 million to fund reviews of PFI contracts across central government in England, including those outside the health system.

Contingent Liabilities

What contingent liabilities does government have?

1.137 The government has a total of £377.5 billion disclosed as contingent liabilities, a decrease of £25.1 billion from 2017-18 (restated). The government has quantifiable and non-quantifiable contingent liabilities, and these are classified as remote and non-remote (disclosed under IAS37) in notes 29 and 30 to the accounts.

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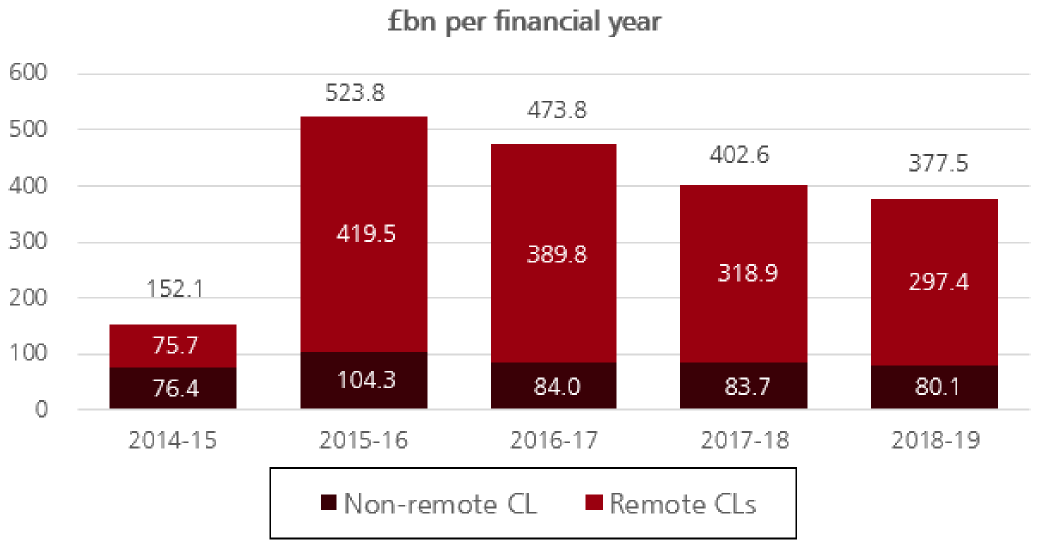
11 https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2018-summary-data

Chart 1.EE: Contingent and remote contingent liabilities



1.138 Non-remote contingent liabilities totalled £80.1 billion in 2018-19. The total has increased 4.7% over the last 5 years, significantly rising in 2015-16 due to a large increase in taxes subject to challenge and clinical negligence. Since 2015-16 this figure has been falling.

1.139 The largest quantifiable contingent liability is clinical negligence, £50.8 billion (63.4%). The Department for Health and Social Care is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is a large degree of uncertainty as to the Department's (and other health bodies) liability. The contingent liability is an estimate of this possible expenditure.

1.140 Remote contingent liabilities totalled £297.4 billion (2017-18 restated: £318.9 billion). The largest component of this is the remote contingent liability held by the Pension Protection Fund (PPF) and is valued at £180.0 billion (2017-18: £210.0 billion). This is the aggregate value of all potential claims. This remote contingent liability was first disclosed in PPF accounts in 2015-16, causing the increase for that year.

Box 1.J: Government as Insurer of Last Resort: further improving the management of contingent liabilities

The Treasury operates a framework for approving new contingent liabilities.[a] This framework requires new contingent liabilities that are novel, contentious or repercussive and have a maximum exposure of over £3.0 million to be evaluated according to their rationale, exposure, risk and return, risk management and mitigation, and affordability.

This framework has been featured by both the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) as an example of international best practice in the management of government guarantees.[b] Since the introduction of the framework in 2017, over 100 new contingent liability proposals, with a current exposure of around £150.0 billion, have been evaluated using it.[c] The framework has helped improve the process for creating new contingent liabilities as the majority have only been approved after:

- more comprehensive information or improved quantification was provided to better understand the risk
- substantial policy changes to reduce the risk or improve compensation to the taxpayer for bearing the risk

A number of contingent liabilities, with a total exposure of over £9.6 billion, have been rejected outright. This has helped to reduce risk and improve fiscal sustainability.

The Balance Sheet Review has highlighted opportunities to build on the success of the existing approval regime and further improve the management of contingent liabilities. At Spring Budget 2020 the government published the 'Government as Insurer of Last Resort' report, which sets out a range of proposals to:[d]

- improve the expertise in the government to quantify and price risk
- improve compensation for risk taken on by the taxpayer
- establish the right incentives to reduce both the probability of risk materialising and the cost when it does
- clarify risk ownership to provide more certainty on how losses will be shared between the Exchequer, departments and the private sector

These proposals also address one of the fiscal risks highlighted in the Office for Budget Responsibility's (OBRs) Fiscal Risks Report.[e] Whilst these proposals provide the foundations for improving the management of contingent liabilities, the application of these proposals to individual contingent liabilities will need to be tailored on a case-by-case basis to reflect the specific circumstance of that contingent liability. The government will take forward work to implement these proposals.

a Contingent liability approval framework: guidance', HM Treasury, July 2017

b 'How to strengthen the management of government guarantees', IMF, October 2017, '18th Annual Meeting of OECD Senior Financial Management and Reporting Officials', OECD Paris, March 2018

c £150 billion represents the maximum potential exposure for government, i.e., what the public sector obligation would be in a plausible worst-case scenario. This approach is different from the WGA quantification of contingent liabilities, which estimates the most probable outcome. The contingent liabilities database therefore provides an estimate of the maximum amount the government may have to cover due to the commitments represented by its contingent liabilities.

d 'Government as Insurer of Last Resort', HMT, March 2020

e 'Fiscal Risks Report 2019', OBR, July 2019

The role of WGA in financial reporting and management

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

1.142 Individual entity accounts - Individual entity's Accounting Officers (and equivalent) are responsible for the public funds spent within their entity. As part of this framework of accountability, each individual entity produces an annual report and accounts. These are prepared in line with International Financial Reporting Standards, as adapted and interpreted by the relevant authority for the public sector context. These accounts are then independently audited and published. In the case of central government departments and their arm's length bodies, these accounts are laid in Parliament, and are used by Select Committees and the Public Accounts Committee.

1.143 In general, departments and their arm's length bodies publish their accounts before the summer Parliamentary recess after the end of the financial year. For 2019-20, HM Treasury has introduced measures that reduce the reporting burden for central government departments' accounts, in the light of the COVID-19 pandemic. These measures include reduced performance reporting requirements and a relaxation of the deadline for laying accounts in Parliament.

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

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

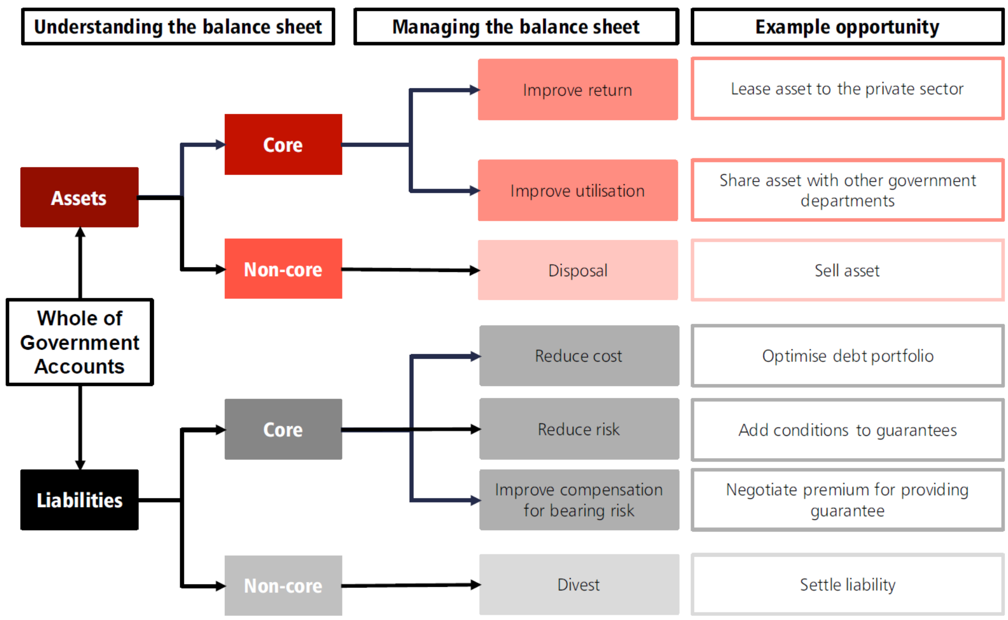
1.146 Public Sector Finances release - This monthly national statistics publication is a joint release between the Office for National Statistics (ONS) and HM Treasury. It records the official UK government positions for spending, receipts, borrowing and debt. Central government data is supplied by HM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

1.147 OBR publications - The Office for Budget Responsibility (OBR) produces independent forecasts of the medium-term outlook for the economy and public finances twice a year, at fiscal events. They also publish, in alternating years, a Fiscal Risks Report (FRR) and a Fiscal Sustainability Report (FSR). The government is required to respond to the FRR within a year of publication. This helps to ensure that fiscal risks and their management are properly considered and scrutinised.

1.148 These reports draw on a wide range of sources, including WGA data. Fiscal risks affect net borrowing by reducing future receipts or increasing future expenditures. The government's response to fiscal risks may bring an asset or liability onto the balance sheet. This increases debt to finance an asset purchase or lending. It can also cause a change in asset or liability valuations. WGA data is used to support this analysis in the FRR, as it provides a highly comprehensive and complete picture of assets and liabilities on the balance sheet. WGA data is also used in the FSR to assess the fiscal impact of past government activity, as reflected in the assets and liabilities on the public sector's balance sheet. The FSR discusses the key results from the latest WGA publication, changes since the last edition and the main measurement differences between the WGA and the National Accounts.

1.149 The publication of comprehensive data on public sector assets and liabilities provided by the WGA was fundamental to the creation of the Balance Sheet Review.

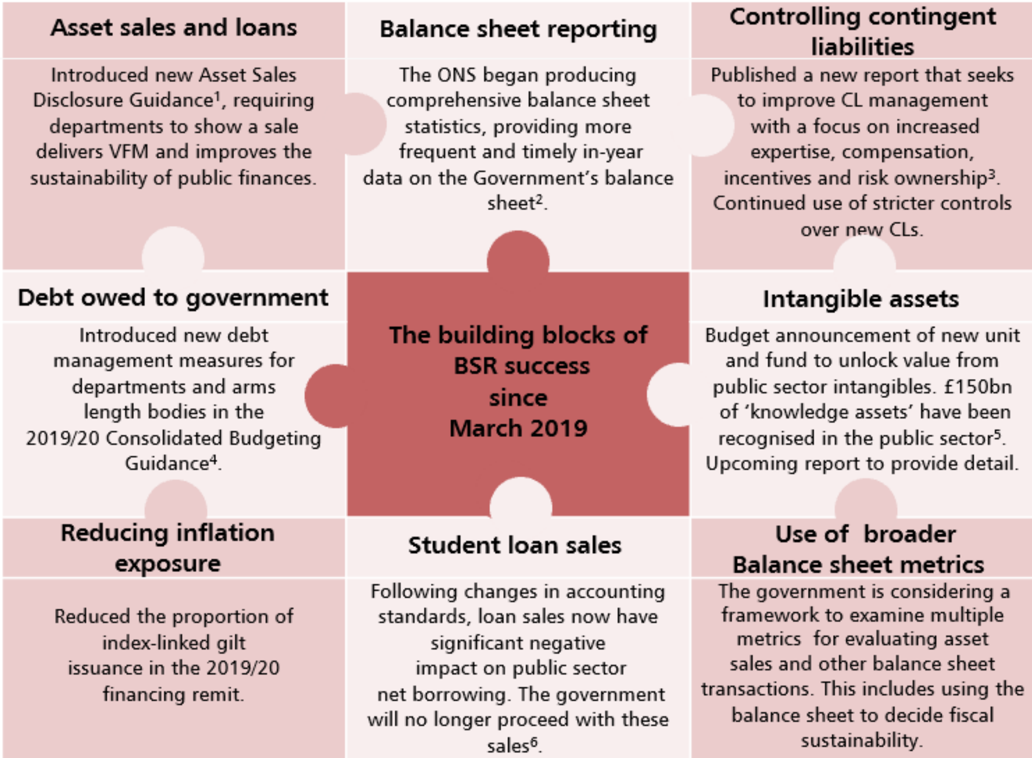
Chart 1.FF: Strategic Framework for the Balance Sheet Review



1.150 The Balance Sheet Review was launched in 2017 to ensure that the government focuses on the stock of assets and liabilities as well as financial flows. It aims to make use of the comprehensive data on public sector assets and liabilities provided by WGA in order to increase the returns on public sector assets, decrease the costs of the government's liabilities and improve the management of balance sheet risks. As well as strengthening balance sheet management, this will release resources for further investment in public services and improve the sustainability of the public finances.

1.151 Since 2017, the Balance Sheet Review has identified significant opportunities to increase the efficiency of the balance sheet. It has realised multiple successes relating to both long-term systemic changes that provide better balance sheet management and the delivery of shorter-term opportunities. Recent examples are shown in Chart 1.GG. Overall, the reforms aim to deliver permanent improvements to the government's capability, understanding and incentives to improve the management of public sector assets and liabilities, as well as to further strengthen fiscal risk management. This is a world-leading review and the Treasury will publish a concluding report at next year's Spending Review.

Chart 1.GG: Successes of the Balance Sheet Review in 2018-19 and 2019-20[a]



a
1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788708/asset_sale_disclosures_guidance_for_government_web.pdf

2. https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/nationalbalancesheet/previousReleases

3. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871660/06022020_Government_as_Insurer_of_Last_Resort_report__Final_clean_.pdf

4. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/790059/2019_-20_CBG_Final_web.pdf

5. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752003/Getting_smart_about_intellectual_property_and_other_intangibles_in_the_public_sector_-_Budget_2018.pdf

6. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871954/Budget_review_of_student_loan_sale_programme.pdf

Events since 31 March 2019

1.152 There have been a number of events that could have a bearing on the Statement of Financial Position as at 31 March 2019. These events are shown in Note 32 to the accounts.

Catherine Little

Accounting Officer

17 July 2020

Chapter 2

Statement of Accounting Officer's responsibilities

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

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

2.2 The account is prepared on an accruals basis and in accordance with the GRAA and the 2018-19 Government Financial Reporting Manual (FReM) which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts must give a true and fair view of the whole of government's finances.

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

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

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

- drawing up WGA in accordance with the GRAA
- ensuring that WGA complies with the FReM and generally accepted accounting practice
- agreeing the process of producing WGA and for ensuring that relevant data are collected and accurately and appropriately processed
- ensuring that there is an appropriate control environment for the production of WGA

2.5 The responsibilities of an Accounting Officer are set out in Managing Public Money, published by HM Treasury and include the need for efficiency, economy, effectiveness, and prudence in the administration of public resources to deliver value for money.[1]

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

1 http://www.hm-treasury.gov.uk/psr_mpm_index.htm

Chapter 3

Governance Statement

Scope of Accounting Officer's responsibility

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

3.2 The previous Accounting Officer, James Bowler, was Accounting Officer for the Whole of Government Accounts up to 11 March 2020. I have been Accounting Officer for the Whole of Government Accounts since 12 March 2020. Although I was not Accounting Officer for the Whole of Government Accounts for the whole period that this report covers, James Bowler has provided me with written assurance that there were adequate governance arrangements in place up to 11 March 2020 and that the system of internal control was effective throughout.

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

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

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

3.6 In producing WGA, I must rely on the Accounting Officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process. The major risks identified from the underlying accounts are set out in

Paragraphs 3.22 to 3.23. The key risks in the preparation of WGA, and any corresponding changes for 2018-19 is summarised below:

Key Risks	Occurrence in 2018-19
Inaccuracies in entities' WGA returns, resulting in materially misstated balances	No significant change
Failure to provide data or delays in the submission of WGA returns	Significant change
Non-elimination of intra-group transaction streams and balances, resulting in materially misstated figures in the accounts	No significant change
Global pandemic: COVID-19	Moderate change

3.7 **Moderate and Significant changes to key risks affecting preparation of WGA**

a) Failure to provide data or delays in the submission of WGA returns

The statutory audits of a large number of English local government bodies were significantly delayed and affected the timeliness of final WGA returns. This has resulted in an increase in unaudited data feeding into the WGA. The Treasury took affirmative action to assess the impact of this issue.

This assessment took three approaches:

i values were calculated by comparing audited returns submitted after consolidation to the corresponding unaudited returns included in the consolidation

ii declaration forms were sent to bodies that had not submitted their audited returns. The forms were for bodies to confirm whether there were any material movement in the data since the original submission

iii analysis was undertaken to project potential variances in data to determine an inferred error

Based on the additional work carried out by HM Treasury, I was able to conclude that the risk of significant error in the WGA arising from an increase in the value of unaudited data was sufficiently low.

In light of the extension of statutory deadlines for English local authorities for their 2019-20 financial statements, and the difficulties faced with the timeliness of local government audits, it is expected that this will also impact the preparation of WGA 2019-20.

b) Global pandemic: COVID-19

The impact of COVID-19 will be reflected partly in the financial accounts of 2019-20, and largely in the accounts of 2020-21. In terms of the preparation of WGA 2018-19, this has caused small delays in the timeliness of the publication. There are likely to be additional delays in the preparation of WGA 2019-20 as a result of an extension to the statutory deadline for laying resource accounts.

On 22 May 2020, the Permanent Secretary of HM Treasury wrote to the Chair of PAC in relation to a number of potential control total breaches for government departments' 2019-20 accounts as a result of the COVID-19 pandemic. WGA does not include data on control totals, however this also highlights the financial reporting challenges that bodies will face in preparing the 2019-20 accounts. These challenges are likely to impact WGA .

3.8 The WGA governance framework has been in place for the year ended 31 March 2019 which this account reports on and the full period of account preparation up to the date of approval. The governance accords with HM Treasury guidance, including the 'Corporate Governance in Central Government: Code of Good Practice', to the extent that it is deemed relevant and practical.

The WGA governance framework

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

- The **HM Treasury Group Audit and Risk Committee**, chaired by a non-executive member and supported by the Treasury's internal audit function, reviews the department's approach to internal control and provides independent advice, with oversight of financial reporting and risk management activities associated with WGA.
- As well as the internal framework of governance and risk management, the WGA is subject to external audit provided by the **Comptroller & Auditor General**, supported by staff from the National Audit Office (NAO). The Comptroller & Auditor General is independent, and reports his findings on the accounts to Parliament. More information about the respective responsibility of the auditor and preparer can be found in the Comptroller & Auditor General's audit certificate in Chapter 5. The Comptroller & Auditor General and his staff have access to all HM Treasury papers and attend HM Treasury's Audit and Risk Committee.

How WGA is prepared

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

Data collection

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

3.12 The data that makes up WGA is largely based on the information included in each entity's audited financial statements, which are published at different times. Historically, central government departments aimed to publish their accounts prior to that year's summer recess (summer closure of Parliament), English local government bodies aimed to publish their finalised accounts by July, and devolved administrations have their own reporting timetables, based on the requirements of local accountability and oversight bodies. It should be noted that the publication deadline for English local government has changed for 2019-20 in response to the COVID-19 pressures. It is not possible to prepare WGA until the vast majority of these entities have finalised their financial statements.

3.13 The format of financial statements varies across the UK public sector. In order to be consolidated into WGA, entities have to provide audited data in a standardised format using a data collection tool provided by the Treasury. The data collection tool covers the whole of an entity's group. Whilst there are over 9,000 organisations consolidated in WGA, this is equivalent to approximately 750 returns in WGA.

3.14 Not every entity in the public sector is consolidated into WGA. The largest entity which is excluded is the Royal Bank of Scotland. Paragraph 3.24 explains how this leads to a qualification of the auditors opinion. In addition to RBS, very small stand-alone entities (below £20 million) are not consolidated and the Treasury publishes a list of these entities online. Finally, there are some entities which are part of the public sector but are not answerable to the Executive function of government, that are also excluded from WGA. These include entities such as the Crown Estate and the NAO. The Treasury also publishes a list of these entities online.

Adjustments and eliminations

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

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

3.17 As part of the WGA preparation process, the Treasury reviews and adjusts transactions between WGA entities until the difference in what is reported by entities (known as the 'eliminations error') is at an acceptable level. For the 18-19 WGA the final elimination error in the Statement of Financial Position is £4.2 billion and in the Statement of Comprehensive Net Expenditure, £6.1 billion.

Analytical review

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

How WGA is being used

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

3.20 The publication and underlying dataset are also used more broadly, including:

- The Office for National Statistics produce one off articles using WGA data, and use WGA data to feed into wider datasets. For example, in the compilation of the public sector finances dataset consistent with the IMF's Government Finance Statistic framework[1], and in the benchmarking for UK gross national income set by Eurostat.
- The Office for Budget Responsibility (OBR) independently reports on the future sustainability of the public finances in its Fiscal Sustainability Report[2] and Fiscal Risks Report[3], drawing on the data published in WGA. In addition, the government responded to the findings of the Fiscal Risk Report in the Managing Fiscal Risks report.
- The Chartered Institute of Public Finance & Accountancy (CIPFA) is a professional body for people in public finance, and manages the accounting framework for Local Government. WGA data is used in their CIPFA stats which is an independent source of comprehensive data about local government and its services.
- Independent thinktanks and charities including Bright Blue,[4] and Resolution Foundation.[5] Resolution Foundation published a report making the case for balance sheet targeting in Fiscal Policy.

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[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/internationalmonetaryfundsgovernmentfinancestatisticsframeworkinthepublicsectorfinancesappendixe

[2] https://obr.uk/report/fiscal-sustainability-report/

[3] https://obr.uk/docs/dlm_uploads/Fiscalrisksreport2019.pdf

[4] https://brightblue.org.uk/tackling-intergenerational-inequity-at-its-roots/

[5] https://www.resolutionfoundation.org/publications/seeking-public-value/

- Other professional bodies: both the Association of Chartered Certified Accountants (ACCA) and the Institute of Chartered Accountants in England and Wales (ICAEW) have presented analysis of WGA data.

Qualifications

3.21 The 2018-19 WGA audit opinion has been qualified as a result of qualifications in underlying accounts and as a result of issues relating to the boundary, non-coterminous year ends and accounting policies applied by the Treasury when carrying out the WGA consolidation.

Qualifications in underlying accounts

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

3.23 Those qualifications that are material to WGA are summarised below:

- The **Ministry of Defence** (MOD) has not applied IFRIC 4 'Determining whether an Arrangement Contains a Lease' to all of its contracts. The MOD believes there are a number of contracts that should be accounted for as leasers, but it does not have accurate information to enable it to do so. The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Consequently, the Comptroller & Auditor-General qualified his opinion on the accounts of the Ministry of Defence on the basis that a material value of leased assets and liabilities were omitted from its Statement of Financial Position.

- both the **Department of Work and Pensions** and **HM Revenue and Customs'** Trust statement accounts received qualified audit opinions due to the level of fraud and error being material to the overall audit opinion on the regularity of the accounts

Qualifications from the consolidation process

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

- The **boundary qualification** arises as a result of WGA excluding certain bodies from the consolidation. The largest of the bodies to be excluded is the Royal Bank of Scotland (RBS). The scale and nature of RBS activities would distort the picture of UK finances. This qualification will remain as long as RBS is in public ownership.

- The qualification on **inconsistent accounting policies** mainly relates to different methods used in valuing infrastructure assets. The largest difference remaining is the valuation of the local authority road network which will remain as a qualification in the medium term.

- The **non-coterminous year ends** qualification mainly relates to the inclusion of academy schools which have a year end of 31 August, as opposed to the 31 March date used by WGA.

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

WGA and the Academies sector

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

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

3.28 The key challenge is to determine how similar or different a 31 March balance would be to the 31 August balance from 7 months earlier, which is the balance consolidated into WGA. Balances such as property, plant and equipment, tend to increase steadily. The balance at 31 August 2017 was £46.7 billion and this was included in the 2017-18 WGA. We now know that the 31 August 2018 balance was £52.5 billion (which has been included in this 2018-19 WGA) and that the balance as at 31 March 2018 is likely to be in between those two figures, giving an estimated maximum error of £5.8 billion on last year's figure. Once the SARA for the year ended 31 August 2019 is published later this year it will be possible to similarly estimate the error on the £52.5 billion of property, plant and equipment included in this year's WGA.

3.29 Balances such as cash, may vary more within a year. Given the size of these balances, a material difference between 31 August and 31 March balances is not anticipated, and the Treasury and DfE will continue to work together on the evidence base to support the 31 March position and any adjustments that may be required. It should be noted that the effect of COVID-19 on the schooling process, may cause variances in trend data used to support the preparation of Academies financial performance as at 31 March.

Comparing balance sheet positions

Item (£bn)	SARA balance 31 August 2018 (included in the 2018-19 WGA)	SARA balance 31 August 2017 (included in the 2017-18 WGA)	Estimated Maximum amount of variance between 31 August and 31 March.
Property Plant and equipment	52.5	46.7	5.8
Cash and cash equivalents	3.9	3.5	n/k
Other assets	1.4	1.5	0.1
Pension Deficit	6.6	7.0	0.4
Other liabilities	2.3	2.2	0.1

Source: SARA

Balancing timeliness, quality and cost effectiveness of data

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

- The qualification relating to MOD remains, in part, because it would not be cost effective to review the contracts to identify arrangements that may amount to a lease.
- The qualification relating to highways infrastructure remains, in part, because it would not be cost effective to change accounting valuations within Local Authorities only for the benefit of WGA.
- The qualification relating to Academies non-coterminous year end remains, in part because it would not be cost effective to require separate 31 March returns from the Academies sector, this involves almost 8,000 entities.

3.31 In preparing WGA, I must balance the timeliness, cost effectiveness and quality of the accounts. Significant financial outlay to provide changes to WGA reporting and disclosures has to be carefully considered. While I will continue to improve WGA, it is important to acknowledge that some of the issues outlined above may not have a cost-effective solution. Where I determine this to be the case, I will consider how supplementary disclosures or information can be used to improve the quality of the accounts.

Assurance in making this judgement

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

3.33 I am satisfied that there is no additional remedial action to improve the quality of the data at this present time. This is because some improvements will take several years to implement fully. In part, this is because lessons are being learned after the accounts of the previous year have been completed. I have procedures in place to monitor the progress being made to tackle these weaknesses.

3.34 I have considered the evidence that supports this governance statement and I am assured that the Treasury has a strong framework of controls to support the production of WGA.

Information and data handling

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

Disclosure of information to auditors

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

3.37 I confirm that this annual report and accounts 2018-19 is, as a whole, fair, balanced and understandable. I take personal responsibility for the annual report and accounts, including the judgements required for determining that it is fair, balanced and understandable.

Catherine Little

Accounting Officer

17 July 2020

Chapter 4

Financial Statements

Statement of Revenue and Expenditure

For the year ended 31 March 2019

	Note	2018-19 £bn	2017-18 Restated £bn
Taxation revenue	4	(685.7)	(661.6)
Other revenue	5	(109.9)	(102.9)
Total public services revenue		**(795.6)**	**(764.5)**
Social security benefits	6	230.3	225.9
Staff costs	7	255.7	215.8
Purchase of goods, services and other expenditure	8	206.5	207.4
Grants and subsidies	9	58.8	51.2
Depreciation and impairment	10	47.9	56.5
Interest costs on government borrowing	11	31.6	36.8
Increase/(decrease) in provisions	22	21.0	15.2
Total expenditure on public services		**851.8**	**808.8**
Net expenditure on public services		**56.2**	**44.3**
Financing costs of long-term liabilities, including discounting	11	(56.6)	153.7
Revaluation of financial assets and liabilities		(1.1)	4.8
Net (income)/expenditure for the year		**(1.5)**	**202.8**

Statement of Comprehensive Income and Expenditure

For the year ended 31 March 2019

	Note	2018-19 £bn	2017-18 Restated £bn
Net (income)/expenditure for the year		(1.5)	202.8
Other comprehensive income and expenditure:			
Net (gain)/loss on:			
Revaluation of property, plant and equipment		(49.8)	(36.1)
Revaluation of intangible assets		(0.1)	(0.7)
Revaluation of assets measured at Fair Value through Other Comprehensive Income		3.3	(1.0)
Revaluation of pension scheme liabilities		(71.1)	(38.6)
Other comprehensive income and expenditure		(117.7)	(76.4)
Total comprehensive (income)/ expenditure for the year		**(119.2)**	**126.4**

Statement of Financial Position

As at 31 March 2019

	Note	2018-19 £bn	2017-18 Restated £bn
Non-current assets			
Property, plant and equipment	12	1,268.0	1,208.4
Investment property	13	22.9	20.0
Intangible assets	14	37.4	36.0
Trade and other receivables	15	17.9	19.1
Other financial assets	16	320.6	323.3
		1,666.8	**1,606.8**
Current assets			
Inventories	17	9.7	9.9
Trade and other receivables	15	172.4	160.8
Other financial assets	16	194.3	184.3
Cash and cash equivalents	18	44.2	34.3
Gold holdings		9.9	9.4
Assets held for sale		1.5	8.3
		432.0	**407.0**
Total assets		**2,098.8**	**2,013.8**
Current liabilities			
Trade and other payables	19	(133.3)	(126.8)
Government borrowings	20	(307.2)	(275.6)
Other financial liabilities	21	(652.1)	(654.0)
Provisions	22	(17.7)	(16.4)
		(1,110.3)	**(1,072.8)**
Non-current liabilities			
Trade and other payables	19	(58.6)	(64.4)
Government borrowings	20	(1,100.0)	(1,071.8)
Other financial liabilities	21	(98.1)	(98.8)
Provisions	22	(293.7)	(406.1)
Net public sector pension liability	24	(1,893.9)	(1,865.3)
		(3,444.3)	**(3,506.4)**
Total liabilities		**(4,554.6)**	**(4,579.2)**
Net liabilities		**(2,455.8)**	**(2,565.4)**
Financed by taxpayers' equity:			
General reserve		(3,018.6)	(3,134.0)
Revaluation reserve		558.6	564.5
Other reserves		4.2	4.1
Total liabilities to be funded by future revenues		**(2,455.8)**	**(2,565.4)**

The financial statements and supporting notes on pages 81-178 and Annex A form part of these accounts.

Catherine Little
Accounting Officer
17 July 2020

Statement of Changes in Taxpayers Equity

As at 31 March 2019

	General reserve £bn	Revaluation reserve £bn	Other reserves £bn	Total £bn
At 1 April 2017 (restated)	**(2,955.6)**	**481.6**	**45.0**	**(2,429.0)**
Net expenditure for the year ended 31 March 2018	(202.8)	-	-	(202.8)
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	36.1	-	36.1
Revaluation of intangible assets	-	0.7	-	0.7
Revaluation of available for sale financial assets	-	1.0	-	1.0
Revaluation of pension scheme liabilities	38.6	-	-	38.6
Other reserves movements including transfers	(14.2)	45.1	(40.9)	(10.0)
Balance at 31 March 2018 (restated)	**(3,134.0)**	**564.5**	**4.1**	**(2,565.4)**
Restatements to 31 March 2018 balances:	53.9	(53.7)	-	0.2
Restated Balance at 1 April 2018	**(3,080.1)**	**510.8**	**4.1**	**(2,565.2)**
Net income/(expenditure) for the year ended 31 March 2019	1.5	-	-	1.5
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	49.8	-	49.8
Revaluation of intangible assets	-	0.1	-	0.1
Revaluation of assets measured at Fair Value through Other Comprehensive Income	-	(3.3)	-	(3.3)
Revaluation of pension scheme liabilities	71.1	-	-	71.1
Other reserves movements including transfers	(11.1)	1.2	0.1	-9.8
Balance at 31 March 2019	**(3,018.6)**	**558.6**	**4.2**	**(2,455.8)**

Further details on restatements can be found in Note 1.5 and Note 33.

Statement of Cash Flows

For the year ended 31 March 2019

	Note	2018-19 £bn	2017-18 restated £bn
Cash flows from operating activities			
Net operating expenditure for public services	SoRE	(56.2)	(44.3)
Adjustments for non-cash transactions		163.8	141.6
Adjustment for non-operating transactions		28.3	32.3
(Increase)/decrease in inventories		-	(0.6)
(Increase)/decrease in trade and other receivables		(12.1)	(7.5)
Increase/(decrease) in trade and other payables		0.7	5.5
Net cash movement for the provision of pensions		(42.7)	(41.5)
Use of provisions		(13.3)	(10.1)
Net cash inflow/(outflow) from operating activities		**68.5**	**75.4**
Cash flows from capital expenditure and financial investment			
Purchase of non-financial assets		(63.7)	(62.6)
Proceeds from disposal of non-financial assets		5.6	3.1
Net cash inflow/(outflow) from purchase and disposal of financial assets and liabilities		16.0	(47.6)
Net cash inflow/(outflow) from capital expenditure and financial investment		**(42.1)**	**(107.1)**
Cash flows from financing activities			
Interest received		7.1	8.1
Financing costs of long-term liabilities, including discounting		(49.4)	(13.7)
Finance charges paid on finance leases and PFI contracts		(6.4)	(4.7)
Net Borrowings		32.2	48.0
Net cash inflow/(outflow) from financing activities		**(16.5)**	**37.7**
Net increase/(decrease) in cash and cash equivalents	18	9.9	6.0
Cash and cash equivalents at the beginning of the year	18	34.3	28.3
Cash and cash equivalents at the end of the year	18	**44.2**	**34.3**

Notes to the accounts

Note 1. Statement of accounting policies

1.1 Basis of preparation

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

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

1.2 Accounting convention

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

1.3 Basis of consolidation

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

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

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

WGA is prepared by consolidating financial data provided by components based on their own audited statutory accounts, wherever possible. For components with transactions and balances over certain thresholds, the financial data provided for consolidation is reviewed by the component's own auditor to confirm consistency

with the audited statutory accounts. Those thresholds are £2 billion for central government bodies and £0.5 billion for local government bodies, applicable to any of income, expenditure, assets excluding property, plant and equipment, or liabilities excluding pension liabilities.

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

A list of all the entities consolidated in the financial statements is published on gov.uk.

1.4 Accounting standards in issue but not yet effective

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

IFRS 16 'Leases' was issued in January 2016, effective for periods beginning on or after 1 January 2019. The FReM has deferred the public sector's adoption of IFRS 16 Leases, until 2020-21, however it will now be adopted by the public sector in 2021-22 because of challenges to 'business as usual' posed by COVID-19. IFRS 16 replaces IAS 17 'Leases' and represents a significant change in lessee accounting. It removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

It is not possible to identify the impact of IFRS 16 on WGA at this stage, as it depends on work carried out at individual organisations to identify the impact within their own accounts. The impact is expected to be material.

IFRS 17 'Insurance Contracts' was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement). IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. It is not possible at this time to quantify the impact of IFRS 17 on WGA, as this will be dependent on choices made on the scope and applicability of the standard to the public sector, and work done within individual entities to assess the impact on their own business. There are no other IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations not yet effective that would be expected to have a material impact on WGA.

1.5 New accounting standards adopted in the year

The following new standards have been adopted in year:

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and was adopted by the public sector from 1 April 2018. The FReM removes the option to adopt IFRS 9 retrospectively, and therefore adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised in the opening retained earnings and other reserves of the current period. In addition, amendments to IFRS 7 'Financial Instruments: Disclosures' have also been applied to the current period only.

IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and liabilities. IFRS 9 contains three principal classification categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI), and fair value through profit or loss (FVTPL). A financial asset is classified into one of these three categories based on how it is managed and its contractual cash flow characteristics. Under IFRS 9, a financial asset is impaired using a forward-looking expected credit loss model which replaces the previous incurred loss model under IAS 39. IFRS 9 contains two classification categories for financial liabilities: amortised cost or fair value through profit or loss (FVTPL). The accounting policy for financial assets is in accounting policy Note 1.21 and the impairment methodology is detailed in Note 23, financial instruments.

There are three areas where it impacts WGA:

- classification and measurement of financial assets
- classification and measurement of financial liabilities
- impairment of financial assets

The most significant of these are the impact on financial assets and especially those disclosed within Note 23 (financial instruments) and Note 16 (other financial assets). The key changes are shown in the "Financial assets by category table" in Note 23.

No changes are required to the corresponding "Financial labilities by category" table. Similarly, there are no changes to the fair value hierarchy tables within Note 23. The only new requirement in IFRS 9 for financial liabilities relates to the changes in the fair value of an entity's own debt instruments under the fair value option. This new requirement is to prevent entities from recognising gains in profit and loss when their credit quality declines. This is unlikely to be a problem for government entities with most financial liabilities being measured at amortised cost; with the notable exception of financial liabilities held for trading (including derivative liabilities) which are measured at fair value through profit or loss.

IFRS 9's impairment requirements of financial assets apply to:

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

All equity investments, measured at either fair value through profit or loss (FVTPL) or FVTOCI, and other financial instruments measured at FVTPL, are outside the scope of IFRS 9's impairment model. IAS 39's impairment model of "incurred loss" is replaced with a more forward-looking "expected credit loss" (ECL) model. Under IFRS 9, it is no longer necessary for a loss event to have occurred before credit losses are recognised. WGA is now required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to both debt instruments accounted for at amortised cost and at FVTOCI.
The WGA note most affected by the changes to the impairment of financial assets, under IFRS 9 is Note 15 (trade and other receivables). The first-time adoption of IFRS 9 means that the 2017-18 comparative figures for trade and other receivables compiled under IAS 39 are calculated on a different basis to those shown for 2018-19 under IFRS 9. Any comparison between the two periods needs to be qualified in these terms.

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and has been adopted by the public sector from 1 April 2018. As with IFRS 9, the FReM removes the option to adopt IFRS 15 retrospectively, and therefore any difference between the previous carrying amount and the carrying amount under IFRS 15 has been recognised as adjustments to opening balances on 1 April 2018.

IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard requires revenue to be recognised at the point of control passing to the customer, which can be over time or at a single point in time. Furthermore, it requires an assessment to be undertaken for each performance obligation within the contract or service provided and this may impact the timing of when revenue is recognised. Most government income streams are not dependent on satisfying performance obligations within a contractual arrangement; therefore, this new standard has a limited impact on most government entities. For example, government income relating to taxation, levies, licensing, and other fees and charges are not generally dependent upon contractual obligations being met by government. There is an impact on some revenue streams, specifically those disclosed in Note 5 – Other Revenue. IFRS 15 impacts on the recognition of other revenue, and the accounting policy is in accounting policy Note 1.7.

In order to apply the principles above, IFRS 15 introduces a five-step model to account for revenues:

1. identify the contract with a customer
2. identify the performance obligations in the contract
3. determine the transaction price
4. allocate the transaction price to the performance obligations in the contract
5. recognise revenue when the performance obligation is satisfied

Current grants and capital grants, European Union Funding, venture capital, repayable launch investment, interest income and dividend income are outside the scope of IFRS 15. Also, IFRS 15 does not apply to non-exchange transactions such as taxation, fines and penalties. These transactions are covered in IFRS 15 paragraph 15. It states that when a contract with a customer does not meet the criteria in IFRS 15 paragraph 9 and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:

- the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
- the contract has been terminated and the consideration received from the customer is non-refundable

The most significant disclosure changes within WGA related to IFRS 15 is in Note 15, where current and non-current contract assets are now recognised when an entity has transferred goods and services to a customer and the right to consideration is conditional on something other than the passage of time; such as the fulfilment of other performance criteria specified within the contract. Contract assets are different from trade receivables because a trade receivable is an unconditional right to receive payment subject to the passage of time.

The analysis of changes to the Statement of Changes in Taxpayers Equity as a result of IFRS 9 and 15 is analysed below:

Analysis of Movement restatements	General reserve £bn	Revaluation reserve £bn	Narrative
HM Treasury	(22.4)	22.4	Reclassifications of assets under IFRS 9
Department for Business, Energy and Industrial Strategy	(0.9)	0.9	Reclassifications of assets under IFRS 9
Department for Education	(0.5)	-	Transition adjustments on adoption of IFRS 9 and 15
HM Revenue & Customs	0.3	-	IFRS 9 adjustment to the valuation of tax credits
National Loans Fund	(30.3)	-	Removal of general fund as a result of IFRS 9
Debt Management Account	-	30.3	Adjustments on revaluation reserve as a result of IFRS 9
Department of Health and Social Care	(0.1)	0.1	Reclassifications of assets under IFRS 9
Total	(53.9)	53.7	

1.6 Foreign Currency

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

1.7 Revenue

Taxes and duties

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

Taxes and duties are accounted for on an accruals basis, except for stamp duty and National Insurance Classes 1A and 1B. These are accounted for on a cash basis and do not have a material impact on the accounts. In addition, some repayments are accounted for on a cash basis. The nature of tax legislation and HMRC associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. Because of the areas of uncertainty involved, actual outcomes could differ from the estimates used.

Taxable events for material tax streams are as follows:

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

Income tax excludes tax credits which are recognised separately as an expense. The tax gap is not recognised in WGA. The tax gap is the difference between the amount of tax that should, in theory, be collected if all individuals complied with both the letter and spirit of the law, and what is collected. It is comprised of the revenue that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

Amounts collected on behalf of the EU

Where the UK acts as an agent of the EU in collecting revenues on its behalf, and bears none of the risks and rewards, these amounts are excluded from WGA. This applies in the case of customs duties collected by HMRC and sugar levies collected by the Department for Environment, Food and Rural Affairs. Therefore, the treatment in WGA diverges from the treatment set out in the FReM. The total value of this departure is £3.0 billion in 2018-19 (£3.0 billion in 2017-18).

The UK also collects VAT on behalf of the EU which is recognised in WGA as the UK doesn’t act solely as an agent and does bear risks and rewards.

Other revenue

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

1.8 Expenditure

Social security benefits

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

Staff costs

Staff costs include salaries and wages, the costs of pensions and other employee benefits. Staff costs that can be attributed directly to the construction of an asset have been capitalised. Average staff numbers include staff engaged on capital projects. Public sector pension scheme costs include current service costs and past service costs, both of which are explained in further detail in accounting policy Note 1.20.

Grants and subsidies

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

Interest costs

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

1.9 Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently valued at current value in existing use. For non-specialised assets, such as offices, this is the market value based on its current use less depreciation. For specialised assets,

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

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

Assets under construction are measured at cost less any recognised impairment loss and are not depreciated. Heritage assets and community assets are either not capitalised or included at cost or a token value and are not revalued.

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

1.10 Investment properties

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

1.11 Intangible assets

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

1.12 Depreciation and amortisation

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

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

Type	Period
Scottish water infrastructure	Up to 150 years
Road and rail network	Up to 100 years
Freehold land	Not depreciated

Buildings	Up to 60 years
Assets under construction	Not depreciated
Military equipment	Up to 35 years
Plant and machinery	Up to 30 years
Transport equipment	Up to 50 years
IT equipment	Up to 10 years
Furniture and fittings	Up to 20 years
Investment properties	Not depreciated

Intangible assets are typically amortised over the following timescales:

Type	Period
Military equipment	Up to 35 years
Development expenditure	Up to 35 years
Other intangible assets	Up to 15 years

1.13 Inventories

Inventories are valued at the lower of cost and net realisable value. Where there is no expectation of consumption or sale in the ordinary course of business, the value is impaired to reduce it to net realisable value. Until 2018-19, the Ministry of Defence held inventory at current cost based on replacement purchase price or estimated through indexation. This change in accounting policy was accounted for as an in-year adjustment and was not material to WGA (net value of £228 million).

1.14 Cash and cash equivalents

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

1.15 Gold holdings

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

1.16 Trade and other receivables

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

In WGA Note 15, trade and other receivables, contract assets are being shown separately for the first time following the introduction of IFRS 15.

1.17 Leases

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

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

The Ministry of Defence has not applied IFRIC 4 'Determining whether an Arrangement Contains a Lease' to all its contracts. Further information regarding this departure from the FReM can be found in Chapter 3.

1.18 Private Finance Initiatives (PFI)

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

If the above conditions are not met, then the private sector provider recognises the asset and all payments are recognised as charges for services.

Several WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these off-balance sheet contracts in their accounts in different ways in 2018-19, as the accounting standards allow flexibility as to how to present the information. Therefore, it is not possible to provide a summary of all PFI contracts in this account.

1.19 Provisions

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

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

1.20 Pension liabilities

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

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

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

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

The gains and losses on revaluation reflect three elements:

- the change in the underlying assumptions used by the actuaries to determine the value of scheme liabilities. This includes changes in the assumptions such as financial assumptions, mortality rates and projected salary increases
- where in-year experience differs from assumptions previously used to determine the liabilities. For example, relating to assumptions about general salary and pension increases

- differences between the asset returns experienced in-year and the interest on the assets included in the Statement of Revenue and Expenditure for funded schemes

The current service costs, any past service costs, including those arising from settlements or curtailments, and pension financing costs are recognised as an increase in the pension liability and are charged to the Statement of Revenue and Expenditure. The gain or loss on revaluation of pension scheme assets and liabilities is recognised in the Statement of Other Comprehensive Income.

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

All equity investments, measured at either fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI), and other financial instruments measured at FVTPL, are outside the scope of IFRS 9's impairment model.

1.21 Financial Instruments

Financial assets

Financial assets classified as FVTPL are initially recognised at fair value and transaction costs are recognised as expenditure in the Statement of Revenue and Expenditure. Regular purchases and sales of financial assets are recognised at the trade date, which is the date on which the entity commits to purchase or sell the asset, or, in the case of loans and advances to financial counterparties, at the settlement date.

Financial assets are categorised as one of the following:

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

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

- debt instruments whose cash flows are the sole payments of principal and interest and held within the business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets
- equity instruments that are neither held for trading nor contingent consideration recognised in a business combination
- after initial recognition, these assets are subsequently carried at fair value. Gains and losses in fair value are recognised directly in equity. On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Revenue and Expenditure

3. Fair value through profit or loss (FVTPL) for any financial assets that are not measured at amortised cost or FVTOCI. This category includes derivatives and

investments in equity instruments, unless an irrevocable election is made on initial recognition to classify as FVTOCI. The election is only available to equity instruments that are not held for trading. Transactions costs and any subsequent movements in the valuation of assets held at FVTPL are recognised in the Statement of Revenue and Expenditure.

Financial assets other than equity instruments and those at FVTPL are assessed for impairment at each reporting date using the expected credit loss model as introduced by IFRS 9, and impairments are recognised in the Statement of Revenue and Expenditure.

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

IFRS 9 impairment requirements for financial assets apply to:

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

Financial liabilities

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

1.22 Contingent liabilities and contingent assets

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

Note 2. Critical accounting estimates and judgements

2.1 WGA boundary

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

The exceptions to this policy are:

• WGA excludes a small number of entities such as the National Audit Office, Crown Estate and Audit Scotland that are accountable to their respective parliaments or assemblies rather than to an executive arm of the government, and therefore do not form part of government. The total impact of excluding these bodies from WGA is estimated to be £1.3 billion of gross expenditure and £17.5 billion of net assets. Some of these amounts would be eliminated on consolidation. Over £14.3 billion of the net assets not included in WGA are reflected in the Crown Estate.

• Minor entities are excluded on the basis that they are too small to have any material impact on WGA. The criteria used for minor bodies in 2018-19 was that they had to have gross expenditure, income, assets and liabilities of less than £20 million (2017-18 £20 million). For example, this includes some district councils. The total impact of excluding minor bodies is estimated to be £0.5 billion of gross expenditure and £0.09 billion of net assets. Some of these amounts would be eliminated on consolidation.

The WGA also does not include some other bodies such as English Further Education colleges, Trust Ports and most significantly the Royal Bank of Scotland (RBS).

RBS

RBS is recognised as an investment of government rather than being consolidated. This is on the basis that the scale of RBS would dwarf other aspects of WGA, distorting the accounts and making it difficult to determine trends. It would also be very technically challenging to consolidate RBS due to the differences in accounting policies and year-end. The government does not intend to retain its shares in RBS for the long-term, and has started to sell its holding, which makes the time and cost of consolidation less worthwhile.

The table below sets out the estimated effect of excluding RBS from the consolidation. It is based on RBS's financial results for the year ended 31 December 2018. It does not include an estimate of the changes required to align the year-end or accounting policies.

	Revenue	Expenditure	Net expenditure	Assets	Liabilities	Net Assets/ (liabilities)
	£bn	£bn	£bn	£bn	£bn	£bn
2018-19 WGA	795.6	(851.8)	(56.2)	2,098.8	(4,554.6)	(2,455.8)
2018 RBS	15.8	(13.7)	2.1	694.2	(647.7)	46.5
Eliminations	(2.9)	2.9	0	(109.6)	109.6	0
WGA plus RBS	808.5	(862.6)	(54.1)	2,683.4	(5,092.7)	(2,409.3)

2.2 Taxation revenue

Taxation revenue is recognised in the period in which the event that generates the revenue occurs. Some of the accrued revenue receivable figures and other items are subject to statistical estimation of forecasts, as tax returns and tax payments can be filed later. Due to the areas of uncertainty involved, actual outcomes could differ from the estimates used. HM Treasury believe that the levels of variation are acceptable and HM Revenue and Customs (HMRC) estimate that any total understatement or overstatement is unlikely to exceed £6.0 billion, which does not significantly impact the reported position and is less than 1% of total revenue reported in the Statement of Revenue and Expenditure.

2.3 Valuation of infrastructure assets

Infrastructure assets in central government are largely comprised of the strategic road and rail networks, which are managed by Department for Transport. The valuation of infrastructure assets is subject to significant uncertainty. Road network assets held by local authorities are currently held at historical cost less depreciation, which is different from the valuation basis used by central government. Local authorities investigated a valuation based on replacement cost less deprecation. However, the body that sets the standards for local authority accounts decided that the costs of implementation outweighed the benefits and decided not to proceed.

The best proxy currently available for depreciated replacement cost is the calculated asset value used by the ONS in the National Accounts. The 2018 National Accounts estimated the value of the road network at £131.1 billion (2017-18: £127.8 billion restated) as at 31 December 2018. Infrastructure assets are likely to be understated by at least £58.8 billion. The ONS figure excludes land, and therefore the total error is likely to be larger than the figure stated. Further information regarding this departure from FReM can also be found in Chapter 3.

Rail network

The strategic rail network owned by Network Rail is valued using a complex model. As at 31 March 2019 this asset is valued at £328.8 billion (2017-18 £300.6 billion). The following sensitivity analysis reflects the sources of estimation uncertainty, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

The impact on the value of the asset of increasing or decreasing the remaining asset lives of the components of the modern equivalent railway network by 10% leads to depreciated replacement cost of £352 billion or £305.6 billion respectively. The impact on the value of the asset if the land compensation adjustment (normally

65%) were to increase or decrease by 10% would lead to depreciated replacement cost of £334.7 billion or £322.9 billion respectively.

The impact on the value of the asset if the adjustment for building on a greenfield site rather than in an operational environment (normally 32%) were to increase or decrease by 10%, an adjustment of 42% or 22%, would lead to a depreciated replacement cost of £332.6 billion or £325.0 billion respectively. This adjustment applies only to costing rates built up using a methodology not already reflecting greenfield build.

The impact on the value of the asset of an adjustment to the risk factor applied to the overall Depreciated Replacement Cost (DRC) valuations, currently 22%, by an increase or decrease of 10% would lead to a depreciated replacement cost of £346.4 billion or £308.6 billion respectively.

Strategic Road Network

The strategic road network owned by Highways England is valued using a complex model. As at 31 March 2019 this asset is valued at £121.2 billion (2017-18 £116.1 billion).

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

There are three possible scenarios considered. The scenario with the largest range variation shows the impact on the value of the asset of increasing or decreasing the costing rates by 10% would lead to depreciated replacement cost of £133.1 billion or £109.3 billion respectively.

2.4 Financial assets

Student loans

Due to the implementation of IFRS 9, student loans are carried at fair value through profit or loss (FVTPL). The FReM requires that where future cash flows are discounted to measure fair value, the higher of the rate intrinsic to the financial instrument or HMT's current discount rate should be used. The discount rate used to discount expected cash flows to calculate the fair value of student loans is the intrinsic rate of the loan for Master's loans, and HMT's standard cross-government discount rate of RPI+0.7% (2017-18: RPI+0.7%) for the remainder of the loan books, as required by the FReM's interpretation of IFRS 9.

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

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

Term Funding Scheme (TFS) loans

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

All participants that have drawn on TFS have been assessed at the end of the reference period running from 30 June 2016 to 31 December 2017 against their level of net lending. For participants whose net lending over the reference period is negative, an additional scheme fee over Bank Rate has been applied to the cost of the loan. As part of the transfer of TFS loans to the Bank of England on 21 January 2019, the nominal value of the loans was de-recognised from the balance sheet having met the criteria per IFRS 9. Ahead of the transfer of these assets, it was agreed that BEAPFF would continue to receive any scheme fees, being those additional scheme fees above Bank Rate payable on balances outstanding at the date of transfer. As such these scheme fees remained on BEAPFF's balance sheet and are included in other assets.

2.5 Public sector pension liability

The assessment of the pension liabilities requires various assumptions about future unknowns in order to determine the expected future benefit payments. These assumptions include life expectancy, employee turnover rates, projections of price inflation and projections of earnings for current employees. A discount rate is then required to discount the future benefit payments to produce a net present value. The key financial assumptions used by the actuaries of government pension schemes to determine the 2018-19 and 2017-18 WGA pension liabilities are set out below:

	2018-19			2017-18		
	Unfunded		Funded	Unfunded		Funded
	central government	local government	local government	central government	local government	local government
	%	%	%	%	%	%
Rate of increase in salaries	4.10	1.00 - 4.40	2.00 - 4.40	3.95	1.00 – 4.30	2.40 – 4.20
Rate of increase of Pensions in Payment	2.60	2.00 - 4.40	2.00 – 3.90	2.45	1.80 – 4.30	1.80 – 3.80
Discount rate - real	0.29			0.1		
Discount rate - nominal	2.90	2.00 - 3.00	2.00 – 3.00	2.55	1.80 – 10.00	2.30 – 3.40
Price inflation assumption	2.6	1.70 - 4.00	0.40 – 4.00	2.45	1.00 – 3.60	1.00 – 3.80

2.6 Provision for nuclear decommissioning

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

The estimate is necessarily based on assumptions regarding processes and methods likely to be used to discharge the obligations, reflecting a combination of latest available technical knowledge, requirements of the existing regulatory regime, government policy and commercial agreements. Given the very long timescale involved and the complexity of the plants and material being handled, considerable uncertainty remains in the estimates of future costs, particularly in later years. The estimate is updated to reflect changed circumstances and more recent knowledge and changed assumptions; as a result, material adjustments could be made to the carrying amount of the nuclear decommissioning provision and related assets and liabilities in the future. The principal assumptions and sensitivities around the cost estimates were reviewed and updated by NDA management as at 31 March 2019.

Sensitivity Analysis

	% Change	£bn change
Increase in discount rate	0.5%	(110)
Decrease in discount rate	0.5%	158

The change in discount rates in 2018-19 produced a decrease of £107.8 billion (2017-18: £66.0 billion increase). This figure excludes the change relating to inflation plus the recoverable contract costs off-setting balance which otherwise result in a decrease of £96.0 billion.

Analysis of expected timing of discounted cash flows for the NDA Nuclear Provision is as follows[1]:

	Waste	Research	Sellafield	Fuel Manufacturing & Generation	Others	2018-19 Total	2017-18 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Up to 1 year	0.1	0.3	1.9	0.4	0.1	2.7	2.9
2 to 5 years	0.3	1.1	8.1	1.3	0.3	11.1	11.6
6 to 20 years	2.4	1.9	30.4	1.2	0.6	36.4	41.4
21 to 50 years	3.9	0.2	33.3	0.8	0.5	38.8	62.9
50 years +	4.8	0.1	24.7	11.9	0.1	41.6	115.3
	11.5	**3.5**	**98.5**	**15.6**	**1.6**	**130.7**	**234.1**
Deduction in respect of Site Licence Companies pension receivable from NDA						-0.9	-0.8
Total NDA Decommissioning Provisions						**129.7**	**233.3**

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

	Waste	Research	Sellafield	Fuel Manufacturing & Generation	Others	2018-19 Total	2017-18 Total
Sensitivity	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Increase	28.2	0.2	83.1	5.7	0.1	117.3	253.9
Reduction	-4.2	-0.4	-13.9	-5.7	-0.2	-24.3	-56.0

The NDA calculates its provision based on management's best estimate of the future costs of the decommissioning programme, which is expected to take until 2137 to complete. The NDA also considers credible risks and opportunities which may increase or decrease the cost estimate, but which are deemed less probable than the best estimate. These are the basis of the sensitivities identified above. Factors that feed into key sensitivities includes costs of constructing and operating facilities, the impact of timing on construction and operations, final decommissioning of assets and site clearance. Further details are reported in the Annual Report and Accounts for Department for Business, Energy and Industrial Strategy and the NDA.

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/824924/beis-annual-report-accounts-2018-2019-web.pdf

2.7 Provision for clinical negligence

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

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

The value of the provision is sensitive to changes in discount rates, and a sensitivity analysis is provided below (source: Department of Health and Social Care Annual Report and Accounts 2018-19).

Claims value inflation: sensitivity to change	Estimated IBNR provision £m	Change to original IBNR estimate £m	%
All rates -2%	36,439	(10,075)	(22)
Base assumptions	46,514		
All rates +2%	60,259	13,745	30
Average costs of claim: sensitivity to change	**Estimated IBNR provision £m**	**Change to original IBNR estimate £m**	**%**
Reduction in average claim values of 20%	37,408	(9,106)	(20)
Base assumptions	46,514		
Increase in average claim values of 20%	55,620	9,106	20
Probability of a successfully defended claim: sensitivity to change	**Estimated IBNR provision £m**	**Change to original IBNR estimate £m**	**%**
All probabilities -5%	50,661	4,147	9
Base assumptions	46,514		
All probabilities +5%	42,367	(4,147)	(9)

2.8 Non-coterminous year ends

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

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

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

Academies sector

The Academies sector annual report and accounts has a year end to 31 August 2018. The account is compiled and published by the Department for Education. The Department was unable to estimate, to a material level of accuracy, the adjustments required to reflect their financial position and performance to 31 March. WGA therefore reflects the Academies sector to 31 August 2018, with no adjustments made. The main impact of this misalignment is in property, plant and equipment (where academies report net book value of £52.6 billion) and pension liabilities (where academies report a pension deficit of £6.5 billion). The academies sector is also subject to a qualification based on accuracy and completeness of the comparative land and buildings values and based on accuracy of the opening revaluation reserve balance. More details can be found in the Comptroller and Auditor General's certificate and report in chapter 5.

2.9 Contracts for difference (CfDs)

CfDs are a mechanism used to support investment in UK green energy projects. CfDs have been established as a contract between the 'Generator' and the Low Carbon Contracts Company (LCCC), a company wholly owned by the government and consolidated within the Department for Business, Energy and Industrial Strategy (BEIS). WGA includes several CfDs on the Statement of Financial Position. In addition to the recognised contracts, there is a contract for Hinkley Point C that has not been recognised but is disclosed in BEIS Annual report 2018-19. The valuation for CfDs is dependent on several assumptions including:

- changes to discount rate
- proportion of electricity lost as it passes from the generator to the supplier
- start date of the contract
- inflation
- forecast future wholesale electricity prices
- installed capacity of the project as reflected in the contract
- the actual power output of the project compared to its rated installed capacity (known as the load factor)

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

Note 3. Segmental reporting

Segmental reporting 2018-19

	Central government £bn	Local government £bn	Public corporations £bn	Whole of Government £bn
Taxation revenue	(618.9)	(66.6)	(0.2)	(685.7)
Other revenue	(54.9)	(43.0)	(12.0)	(109.9)
Total public services revenue	**(673.8)**	**(109.6)**	**(12.2)**	**(795.6)**
Social security benefits	206.0	23.7	0.6	230.3
Staff costs	176.6	73.5	5.6	255.7
Purchase of goods, services and other expenditure	120.9	77.5	8.1	206.5
Interest cost on government borrowing	31.6	-	-	31.6
Increase in provisions	16.8	1.2	3.0	21.0
Other expenditure	89.6	15.3	1.8	106.7
Total expenditure on public services	**641.5**	**191.2**	**19.1**	**851.8**
Net (revenue)/expenditure on public services	**(32.3)**	**81.6**	**6.9**	**56.2**
Financing costs of long-term liabilities, including discounting	(69.8)	9.6	3.6	(56.6)
Net loss on revaluations and disposals of assets and liabilities	-	(0.1)	(1.0)	(1.1)
Net expenditure/(revenue) for the year	**(102.1)**	**91.1**	**9.5**	**(1.5)**
Property, plant and equipment	811.6	374.5	81.9	1,268.0
Other non-current assets	216.8	35.1	146.9	398.8
Current assets	342.3	39.3	50.4	432.0
Total assets	**1,370.7**	**448.9**	**279.2**	**2,098.8**
Current government borrowings	(307.2)	-	-	(307.2)
Other current liabilities	(174.5)	(28.1)	(600.5)	(803.1)
Non-current government borrowings	(1,100.0)	-	-	(1,100.0)
Provisions non-current	(266.5)	(2.6)	(24.6)	(293.7)
Net public sector pension liability	(1,592.7)	(300.8)	(0.4)	(1,893.9)

Other non-current liabilities	(100.9)	(42.8)	(13.0)	(156.7)
Total liabilities	**(3,541.8)**	**(374.3)**	**(638.5)**	**(4,554.6)**
Net assets/(liabilities)	**(2,171.1)**	**74.6**	**(359.3)**	**(2,455.8)**

WGA uses the same classification of sectors of government as the ONS.

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

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

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

Note 7 provides a breakdown of staff numbers by sector.

Segmental reporting 2017-18

	Central government Restated £bn	Local government Restated £bn	Public corporations £bn	Whole of Government Restated £bn
Taxation revenue	(599.2)	(62.2)	(0.2)	(661.6)
Other revenue	(51.1)	(39.3)	(12.5)	(102.9)
Total public services revenue	**(650.3)**	**(101.5)**	**(12.7)**	**(764.5)**
Social security benefits	200.1	25.2	0.6	225.9
Staff costs	145.0	65.4	5.4	215.8
Purchase of goods, services and other expenditure	123.9	75.7	7.8	207.4
Interest cost on government borrowing	36.8	-	-	36.8
Increase in provisions	13.5	0.8	0.9	15.2
Other expenditure	94.6	12.9	0.2	107.7
Total expenditure on public services	**613.9**	**180.0**	**14.9**	**808.8**
Net (revenue)/expenditure on public services	**(36.4)**	**78.5**	**2.2**	**44.3**
Financing costs of long-term liabilities, including discounting	141.4	10.0	2.3	153.7
Net loss on revaluations and disposals of assets and liabilities	5.2	(0.5)	0.1	4.8
Net expenditure/(revenue) for the year	**110.2**	**88.0**	**4.6**	**202.8**
Property, plant and equipment	761.6	367.8	79.0	1,208.4
Other non-current assets	215.6	31.1	151.7	398.4
Current assets	315.5	38.2	53.3	407.0
Total assets	**1,292.7**	**437.1**	**284.0**	**2,013.8**
Current government borrowings	(275.6)	-	-	(275.6)
Other current liabilities	(164.1)	(29.1)	(604.0)	(797.2)
Non-current government borrowings	(1,071.8)	-	-	(1,071.8)
Provisions non-current	(381.3)	(2.4)	(22.4)	(406.1)
Net public sector pension liability	(1,589.4)	(275.5)	(0.4)	(1,865.3)
Other non-current liabilities	(101.5)	(45.0)	(16.7)	(163.2)
Total liabilities	**(3,583.7)**	**(352.0)**	**(643.5)**	**(4,579.2)**

Net assets/(liabilities)	(2,291.0)	85.1	(359.5)	(2,565.4)

Note 4. Taxation revenue

	2018-19 £bn	% of total	2017-18 £bn	% of total
Income Tax	194.0	28%	186.0	28%
National Insurance Contributions (NIC)	120.4	18%	118.4	18%
Value Added Tax (VAT)	135.6	20%	128.6	19%
Corporation Tax	53.1	8%	53.2	8%
Hydrocarbon oils duty	28.0	4%	27.9	4%
Excise duty	28.5	4%	26.7	4%
Stamp taxes	16.4	2%	17.2	3%
Capital gains tax	9.3	1%	7.8	1%
Other taxes and duties	33.6	5%	33.6	5%
Central government taxation revenue	**618.9**	**90%**	**599.4**	**90%**
Council Tax	34.5	5%	32.1	5%
National Non-Domestic Rates (NNDR)	32.3	5%	30.1	5%
Local government taxation revenue	**66.8**	**10%**	**62.2**	**10%**
Total taxation revenue	**685.7**	**100%**	**661.6**	**100%**

Total tax revenue increased by £24.1 billion (3.6%) in 2018-19.

Income tax increased by £8.0 billion (4.3%) and National Insurance Contributions rose by £2.0 billion (1.7%). Both were supported by increases in the number of people in employment and wage levels.

Value Added Tax (VAT) increased by £7.0 billion (5.4%), resulting from economic growth, inflation and higher consumer spending.

Excise duty increased by £1.8 billion (6.7%), reflecting increases in the rates of duty on alcohol and tobacco and increased alcohol consumption which may be due to hot weather, the FIFA world cup and royal wedding in 2018-19.

Capital gains tax increased by £1.5 billion (19.2%) and business rates collected by local authorities increased by £2.2 billion (7.3%).

The increases are partially offset by a decrease in stamp taxes which decreased by £0.8 billion (4.7%) as a result of 2018-19 being the first full year of First Time Buyers Relief claims.

2017-18 figures have been re-presented by moving £1.9 billion from corporation tax to other taxes and duties. This is due to certain tax streams previously included in corporation tax now being included in other taxes for 2018-19.

Note 5. Other revenue

	2018-19 £bn	2017-18 Restated £bn
Revenue from contracts		
Sales of goods and services (excluding the NHS)	35.5	32.3
Levies	4.6	3.1
Court fines and penalties	1.0	1.0
Passenger Transport and income from train operating companies	6.4	6.3
Other fees and charges	4.1	6.5
Rental income	9.8	9.9
EU income	5.9	4.1
License income	3.0	1.6
Revenue from contracts	**70.3**	**64.8**
NHS Income		
Sales of goods and services	1.0	2.0
NHS fees and charges (dental, prescription and other)	1.9	1.8
Other income from the NHS	4.8	5.1
NHS Income	**7.7**	**8.9**
Other income		
Interest income	7.1	8.1
Private sector contributions to local services	3.5	3.2
Pension income	3.1	2.9
CRC allowance sales and EU emissions trading scheme	1.7	1.1
Grants from private sector	2.1	1.8
Miscellaneous operating revenue	14.4	12.1
Other Income	**31.9**	**29.2**
Total Income	**109.9**	**102.9**

IFRS 15 came into effect for the 2018-19 financial year. Further details on the implementation of IFRS 15 can be found in Note 1. The overall effect on the recognition of income has not been material, since most income streams for government are single transactions that do not require income to be allocated across performance obligations.

Sales of goods and services is largely made up of goods and services provided by local authorities (£18.2 billion in 2018-19 and £18.8 billion in 2017-18). This figure includes a wide range of goods and services, including income from schools and adult social care provision. £10.5 billion (£6.0 billion in 2017-18) is goods and services provided by central government, this includes a wide range of income streams. One of the most significant and complex income streams included in this figure is the £765 million of income recognised in year by the Nuclear Decommissioning Authority for the reprocessing of nuclear fuel. This contract involves a complex allocation of performance obligations, with a further £8.5 billion to be recognised over the remaining life of the contract, which runs to 2087. The remaining income is from Public Corporations, including Channel 4, Scottish Water and the Post Office.

Levies are made up of income from the Low Carbon Contracts Company operational cost levy, the Electricity Settlements Company's settlement cost levy and the Oil and Gas Authority's petroleum licence levy. Other smaller sources of levy income include the Department for Environment, Food and Rural Affairs, Pension Protection Fund, Land Registry and HM Treasury.

Passenger transport and train operating companies' income of £6.4 billion (£6.3 billion in 2017-18) is largely made up of passenger income from Transport for London (£4.9 billion in 2018-19, £4.5 billion in 2017-18) and income from Train Operating Companies (TOCs) (£1.5 billion 2018-19, £1.8 billion in 2017-18). The recognition of income from TOCs requires the use of a complex model, which was reassessed under the IFRS 15 standard for 2018-19. The Department for Transport concluded that the existing accounting policy was materially consistent with IFRS 15, and therefore no changes to the pattern of revenue recognition occurred in 2018-19.

Rental income from local government housing relates to rents and related costs collected from local government council tenants.

EU Income of £5.9 billion (£4.1 billion in 2017-18) is largely made up of income from the EU to the Department for Environment Food and Rural Affairs (DEFRA). This income mainly relates to the Basic Payment Scheme and income payable to other paying agencies, and is therefore paid back out as grants, which can be seen in Note 9.

Licence income of £3.0 billion (£1.6 billion in 2017-18) is largely made up of income from OFCOM. The BBC licence fee classified as a tax in Note 4.

NHS income of £7.7 billion (£8.9 billion in 2017-18) is made up of a variety of sources, including income from private patients (£0.6 billion in 2018-19, £0.6 billion in 2017-18).

Pension scheme income of £3.1 billion in 2018-19 (£2.9 billion in 2017-18) relates to employer contributions from organisations which participate in public sector pension schemes but are not themselves consolidated within the WGA boundary. Examples included GPs and charity hospices that contributed to the NHS pension scheme; higher and further education institutions and independent teaching establishments that contributed to the Teachers' Pension Scheme. It also includes non-WGA entities such as the National Audit Office, Wales Audit Office and Electoral Commission that contribute to the Principal Civil Service Pension Scheme.

Note 6. Social security benefits

	2018-19 £bn	% of total	2017-18 £bn	% of total
State pension	99.1	43%	96.1	43%
Pension credit	5.4	2%	5.7	3%
TV licences for the over 75's	0.5	0%	0.7	0%
Pensioner benefits	105.0	45%	102.5	46%
Disability living allowance	8.7	4%	10.5	5%
Attendance allowance	5.9	3%	5.5	2%
Personal independence payment	11.1	5%	8.3	4%
Carer's allowance	3.2	1%	3.0	1%
Employment and support allowance	15.3	7%	15.7	7%
Jobseeker's allowance	1.4	1%	1.8	1%
Income support	2.0	1%	2.3	1%
Statutory sick pay and maternity pay	2.7	1%	2.4	1%
Universal Credit	8.0	3%	3.2	1%
Other working age benefits	1.3	1%	1.3	1%
Tax credits	28.5	12%	30.1	13%
Child benefit	11.5	5%	11.7	5%
Housing benefit	24.3	10%	25.8	11%
Miscellaneous benefits	1.4	1%	1.8	1%
Disability, working and other benefits	125.3	55%	123.4	54%
Total social security benefits	**230.3**	**100%**	**225.9**	**100%**

The **State Pension** (including the 'new state pension'), at £99.1 billion, is the largest benefit paid, and accounted for almost half of all spending. State Pension expenditure increased by £3.0 billion (3.1%), largely driven by the annual uprating in line with the "triple lock" at 2.5%. However, the number of claimants was down due to the decrease in the number of new claimants after December 2018, as the State Pension age started to rise beyond 65 for men and women.

In 2017-18, Universal Credit was shown under the heading 'other working age benefits'. In 2018-19 Universal Credit now has its own specific heading. 'Other benefits' have been renamed 'Miscellaneous benefits' and an adjustment has been made to the 2017-18 figure to reclassify Maternity or Industrial injury benefits to 'Other working age benefits.'

Disability, working and other benefits increased by £1.9 billion (1.5%). Most of this increase was accounted for by the annual uprating of benefits. Universal Credit replaces Employment and Support Allowance, Jobseeker's Allowance, Income Support, Housing Benefit, Child Tax Credit and Working Tax Credit meaning that the number of people claiming these benefits and tax credits are falling. The table below summarises benefits to be replaced by Universal Credit (UC).

	2018-19 £bn	2017-18 £bn
Income-related Employment and support allowance	15.3	15.7
Income-related Jobseeker's allowance	1.4	1.8
Housing benefit for working age claimants	24.3	25.8
Income support	2.0	2.3
Working tax credit	4.2	5.1
Child tax credit	18.1	21.3
Total benefits (that are being transferred to UC)[2]	**65.3**	**72.0**
Current Universal Credit expenditure	8.0	3.2

Note 7. Staff costs

	Permanently employed staff £bn	Others £bn	2018-19 Total £bn	2017-18 Total £bn
Salaries and wages	147.8	11.6	159.4	152.8
Pension scheme costs: current service costs (net of employees' contributions)	62.2	0.0	62.2	60.1
Pension scheme costs: past service costs	31.8	0.0	31.8	1.3
Pension scheme costs: losses on settlements and curtailments	(0.3)	0.0	(0.3)	(0.4)
Expenditure on external pension schemes	2.6	0.0	2.6	2.0
Total staff costs	**244.1**	**11.6**	**255.7**	**215.8**

Pension scheme costs increased by £33.3 billion in 2018-19 to £96.3 billion. These costs included expenses such as current service costs, past service costs, enhancements, gains or losses on settlements and curtailments. Further details are included in Note 24.

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

Salaries and wages increased by £6.6 billion to £159.4 billion in 2018-19, an increase of 4.3% on the prior year. This is indicative of both an increase in staff numbers (which grew by 1.4%) and a change in public sector pay policy, with a move away from the previous 1.0% pay restraint policy. Further information on pay policy changes is found in the expenditure section of Chapter 1. Expenditure by the Department of Health and Social Care (which encompasses NHS staff in England) accounted for £2.4 billion of the increase. The remaining increase was driven by growth in the Academies sector and smaller increases across central government and the devolved administrations. A split of staff costs by sector can be found in the segmental analysis in Note 3.

Average number of persons employed

	Permanently employed staff	Others	2018-19 Total	2017-18 Total
Health sector	1,530,972		1,530,972	1,490,868
Academy schools	467,850		467,850	433,696
Northern Ireland and Scotland FE colleges	16,749		16,749	14,861
Other	638,888	199,253	838,141	809,301
Total Central government (including health)	**2,654,459**	**199,253**	**2,853,712**	**2,748,726**
Local government	1,416,827	46,001	1,462,828	1,512,783
Public corporations	90,225	23,389	113,614	108,265
Total	**4,161,511**	**268,643**	**4,430,154**	**4,369,774**

In addition to permanently employed staff, 'others' includes the cost of ministers, special advisers, temporary and contract staff. The cost of the salaries of ministers was £5.4 million (2017-18: £5.3 million) and the cost of special advisers was £7.1 million (2017-18: £6.1 million). The ministerial salary only includes the additional element on top of the basic salary of an MP.

Civil service and other compensation schemes - exit packages

Exit package cost band 2018-19

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	2,956	4,177	7,133	-
£10,000-£50,000	9,393	17,777	27,170	0.5
£50,000-£100,000	660	1,931	2,591	0.2
>£100,000	301	824	1,125	0.2
Total	**13,310**	**24,709**	**38,019**	**0.9**

Exit package cost band 2017-18

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	2,665	4,660	7,325	-
£10,000-£50,000	10,014	21,340	31,354	0.5
£50,000-£100,000	607	2,294	2,901	0.2
>£100,000	294	1,053	1,347	0.2
Total	**13,580**	**29,347**	**42,927**	**0.9**

Note 8. Purchase of goods, services and other expenditure

	2018-19 £bn	2017-18 Restated £bn
Central government		
Department of Health and Social Care	62.9	
Ministry of Defence	15.5	
Academies	5.7	
Scottish Government	5.1	
Department for Transport	2.9	
Welsh Government	3.5	
Ministry of Justice	3.2	
Home Office	2.7	
Department for Education	2.3	
Department for Business, Energy & Industrial Strategy	2.2	
Other	14.8	
Total Central government	**120.8**	**123.8**
Local government	**77.6**	**75.8**
Public Corporations		
British Broadcasting Corporation	2.8	
Other	5.3	
Total Public Corporations	**8.1**	**7.8**
Total purchases of goods, services and other expenditure	**206.5**	**207.4**

The 2017-18 comparatives have been restated to reflect an adjustment to Academies land and buildings, and to reclassify losses on disposal of assets from revenue to expenditure. Further details can be found in Note 33. For 2018-19 the methodology for allocating intra-government transactions was changed, and this means that 2017-18 WGA figures at an entity level are not comparable.

The figures shown in the above table are after elimination of intra-government transactions and WGA accounting adjustments, so will not be reconcilable to individual departmental accounts.

Note 9. Grants and subsidies

	2018-19 £bn	2017-18 £bn
Further and higher education sector grants	19.6	19.3
Contribution to the EU budget	12.9	12.2
EU grants and subsidies to the private sector	4.1	3.1
Overseas assistance and contributions	9.1	8.2
Scottish Government grants	2.9	1.9
Welsh Government grants	1.6	1.7
Northern Ireland government grants	0.7	0.7
Cultural, heritage and sports grants	2.1	2.4
Transport grants and subsidies	1.4	1.2
Other grants and subsidies	4.4	0.5
Total grants and subsidies	**58.8**	**51.2**

At times, WGA will expand classifications to improve transparency. Northern Ireland government grants is the new category for the above table, the 2017-18 figures have been reclassified to reflect this.

Further and higher education grants are paid to colleges and universities; and includes the funding for Science and Research.

The UK's contribution to the **EU budget** is the amount payable to the EU after the UK's rebate has been applied, and prepayment to the EU budget removed.

EU grants and subsidies to the private sector relate to projects which have been approved and funded by the EU but are administered by government, such as agricultural support, maritime and fisheries, and funding by region. The EU reimburses the UK for this expenditure and the corresponding income is included in Note 5.

Overseas assistance and contributions include contributions (92%) made by the Department for International Development (DFID). DFID leads the UK's work to end extreme poverty. DFID's Secretary of State has overall oversight for the Sustainable Development Goals (SDGs), and the department is responsible for tackling global challenges, in line with the government's UK Aid Strategy.

The Scottish Government provides a range of grants to deliver their policies as reported in the portfolio outturn statements in their consolidated accounts.

The Welsh Government provides a range of grant schemes to deliver their policies and create a fairer, more prosperous Wales. This includes funding to businesses and third sector organisations in order to improve the economy, encompassing a wide range of activities such as business start-ups, regeneration, energy saving initiatives, training and tourism.

Grants issued by **Northern Ireland Government Departments** are mainly for educational purposes. This includes funding and support to students; educational and training institutions; funding for EU programmes; and grants for educational initiatives to a wide range of organisations. In additional to educational grants there are many small grants to community groups, charities, and local businesses.

Other grants and subsidies includes any other grant or subsidy type not separately broken out above. This includes housing grants, which cover a range of initiatives to improve the supply and quality of housing.

Note 10. Depreciation and impairment

	Note	2018-19 £bn	2017-18 Restated £bn
Depreciation of property, plant and equipment	12	31.1	29.8
Amortisation of intangible assets	14	3.5	3.3
Impairments and revaluations		13.3	23.4
Total depreciation and impairment		**47.9**	**56.5**

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

The reduction of impairments is mainly due to changes in the way student loans are now accounted for under IFRS 9. In 2017-18, the Department for Education (which holds 90% of student loans) disclosed an impairment charge of £13.1 billion which was included within the impairment and revaluation line of this note. In 2018-19, under IFRS 9, they reported an annual valuation loss of £4.3 billion which is disclosed in the Statement of Revenue and Expenditure under 'Revaluation of financial assets and liabilities' instead.

Note 11. Finance expense

	2018-19 £bn	2017-18 £bn
Interest on gilts	28.7	33.9
National Savings and Investment products	2.5	2.5
Treasury bills	0.4	0.4
Total interest costs on government borrowing	**31.6**	**36.8**

Interest costs on government borrowing

In 2018-19, interest costs on government borrowing has decreased by 14.1% (£5.2 billion). This is mainly due to a 15.3% decrease in interest on gilts (£5.2bn) which is a direct result of the decrease in gilts being issued for money making activities.

	Note	2018-19 £bn	2017-18 £bn
Pension financing costs	24	47.3	50.7
Provision financing costs	22	(115.8)	93.4
Other finance expense		11.9	9.6
Total financing costs of long-term liabilities		**(56.6)**	**153.7**

Financing costs of long-term liabilities

Other finance expense has increased in 2018-19 by £2.3bn. This is driven by the interest payable to the private sector for Non-Private Finance Initiative (PFI) finance leases within Bank of England of £3.2bn (2017-18: £1.6bn) and the interest payable to the private sector in the Exchange Equalisation Account of £2.2bn (2017-18: £1.7bn).

Pension financing costs have decreased in 2018-19 by £3.4bn (6.7%). The variance is primarily due to a decrease in the expense cost for National Health Service Pension Scheme (£0.8 billion), Cabinet Office Civil Superannuation (£0.5 billion), the Teachers' Pension Scheme (England & Wales) (£0.5 billion) and Armed Forces Retired Pay Pensions (£0.4 billion). The variance is due to a change in actuarial assumptions. Further details can be found in Note 24.

Provisions financing includes the impact of changes of discount rates for provisions. In 2017-18 there was a reduction in long term discount rates that led to provisions increasing. The Treasury changed policy on the selection of long-term discount rates for 2018-19, allowing discount rates for longer term provisions to be selected individually. This has led to a reduction in discounted provisions. Further details can be found in Note 22.

Note 12. Property, plant and equipment

Property plant and equipment 2018-19

	Infrastructure assets	Land and buildings	Assets under construction	Military equipment	Other assets	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Cost of valuation:						
At 1 April 2018	827.3	482.4	65.2	79.1	115.1	1,569.1
Additions	4.8	10.9	34.8	0.7	4.9	56.1
Revaluations and impairments	43.8	(1.0)	(3.7)	4.0	(0.1)	43.0
Reclassifications and transfers	9.8	10.9	(23.6)	(0.1)	3.0	(0.0)
Disposals	(0.3)	(9.0)	(0.4)	(2.6)	(4.7)	(17.0)
At 31 March 2019	**885.4**	**494.2**	**72.3**	**81.1**	**118.2**	**1,651.2**
Depreciation:						
At 1 April 2018	(210.7)	(51.2)	-	(41.4)	(57.4)	(360.7)
Charged in year	(10.5)	(11.2)	-	(2.8)	(6.6)	(31.1)
Revaluations and impairments	(7.7)	6.5	-	(2.4)	0.8	(2.8)
Reclassifications and transfers	0.0	1.0	-	1.6	0.3	2.9
Disposals	0.2	3.4	-	1.7	3.2	8.5
At 31 March 2019	**(228.7)**	**(51.5)**	**-**	**(43.3)**	**(59.7)**	**(383.2)**
Carrying amount at 31 March 2018	616.6	431.2	65.2	37.7	57.7	1,208.4
Carrying amount at 31 March 2019	**656.7**	**442.7**	**72.3**	**37.8**	**58.5**	**1,268.0**
Asset financing:						
Owned	647.3	398.2	71.6	37.8	53.3	1,208.2
Finance leased	-	11.5	-	-	0.9	12.4
On balance sheet PFI contracts	9.4	33.0	0.7	-	4.3	47.4
Carrying amount at 31 March 2019	**656.7**	**442.7**	**72.3**	**37.8**	**58.5**	**1,268.0**

Infrastructure assets include the following:

- railway network as reported by the Department for Transport and managed by Network Rail of £328.8 billion (2017-18: £300.6 billion)
- strategic road network assets as reported by the Department of Transport and managed by Highways England of £121.2 billion (2017-18: £116.1 billion)
- highways network assets held by local authorities of £74.0 billion (2017-18: £70.4 billion)
- networked assets held by Scottish Water of £61.2 billion (2017-18: £59.2 billion)

The value of infrastructure assets has increased by £40.1 billion during 2018-19 reflecting new additions, indexation adjustments and the completion of assets under construction. These included investments in the rail and road networks by the Department for Transport and investment in transport infrastructure by Transport for London. Further information on the valuation of infrastructure assets is included in the critical accounting estimates and judgements in Note 2.

Land and buildings increased by £11.5 billion overall. The most significant increase related to land and buildings held by Academies, amounting to £6.1 billion.

Reclassifications and transfers include assets reclassified between assets under construction to other types of assets, transfers to and from intangible assets and transfers to and from operating expenditure or reserves. Of the £23.6 billion outflow from assets under construction, £4.0 billion relates to the Ministry of Defence. Other large reclassifications and transfers under assets under construction include £6.7 billion for the Department for Transport, relating to the completion of infrastructure.

Other assets consist of:

	Plant and machinery £bn	Transport equipment £bn	IT equipment £bn	Furniture, fittings and other £bn	Total other assets £bn
Carrying amount at 31 March 2018	18.6	15.6	5.1	18.4	57.7
Carrying amount at 31 March 2019	18.5	15.6	5.2	19.2	58.5

Property, Plant and equipment 2017-18 (restated)

	Infrastructure assets	Land and buildings	Assets under construction	Military equipment	Other assets	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Cost of valuation:						
At 1 April 2017	798.6	460.8	63.1	75.7	111.2	1,509.4
Additions	5.4	11.9	33.3	0.5	4.7	55.8
Revaluations and impairments	15.3	7.9	(2.6)	0.6	0.4	21.6
Reclassifications and transfers	8.7	11.0	(28.3)	5.4	2.6	(0.6)
Disposals	(0.7)	(9.2)	(0.3)	(3.1)	(3.8)	(17.1)
At 31 March 2018	**827.3**	**482.4**	**65.2**	**79.1**	**115.1**	**1,569.1**
Depreciation:						
At 1 April 2017	(203.0)	(49.5)	-	(42.6)	(55.1)	(350.2)
Charged in year	(10.0)	(10.6)	-	(2.9)	(6.3)	(29.8)
Revaluations and impairments	2.0	4.5	-	0.2	0.5	7.2
Reclassifications and transfers	0.0	1.2	-	0.9	0.3	2.4
Disposals	0.3	3.2	-	3.0	3.2	9.7
At 31 March 2018	**(210.7)**	**(51.2)**	**-**	**(41.4)**	**(57.4)**	**(360.7)**
Carrying amount at 31 March 2017	595.6	411.3	63.1	33.1	56.1	1,159.2
Carrying amount at 31 March 2018	**616.6**	**431.2**	**65.2**	**37.7**	**57.7**	**1,208.4**
Asset financing:						
Owned	609.2	387.9	64.0	37.7	52.6	1,151.4
Finance leased	-	10.5	-	-	1.2	11.7
On balance sheet PFI contracts	7.4	32.8	1.2	-	3.9	45.3
Carrying amount at 31 March 2018	**616.6**	**431.2**	**65.2**	**37.7**	**57.7**	**1,208.4**

2017-18 balances have been restated due to changes in valuation of Academies land and buildings. Further details can be found in Note 33.

Note 13. Investment properties

	2018-19 £bn	2017-18 £bn
As at 1 April	20.0	18.2
Additions	3.0	2.7
Revaluations and impairments	0.4	(0.6)
Disposals	(0.5)	(0.3)
As at 31 March	**22.9**	**20.0**

Investment properties mainly consist of land and buildings owned by local authorities. They provide rental income for the funding of services, as part of a financial strategy to minimise the use of general reserves to meet ongoing expenditure. Of the £22.9 billion total balance, £21.6 billion (2017-18: £18.7 billion) is within the local government sector.

Note 14. Intangible assets

Intangible assets 2018-19

	Military equipment £bn	Development expenditure £bn	Software £bn	Licences and other £bn	Total £bn
Cost or valuation:					
At 1 April 2018	37.4	11.7	8.8	10.6	68.5
Additions	1.6	1.3	0.3	1.4	4.6
Revaluations and impairments	0.4	(0.1)	0.1	-	0.4
Reclassifications	0.3	(0.3)	0.6	-	0.6
Disposals	(4.3)	0.1	(0.5)	(0.3)	(5.0)
At 31 March 2019	**35.4**	**12.7**	**9.3**	**11.7**	**69.1**
Amortisation:					
At 1 April 2018	(13.5)	(5.6)	(6.2)	(7.2)	(32.5)
Charged in year	(1.0)	(0.5)	(0.8)	(1.2)	(3.5)
Revaluations and impairments	(0.4)	(0.4)	(0.1)	-	(0.9)
Reclassifications	-	0.3	(0.2)	0.2	0.3
Disposals	4.1	0.1	0.4	0.3	4.9
At 31 March 2019	**(10.8)**	**(6.1)**	**(6.9)**	**(7.9)**	**(31.7)**

Carrying amount at 31 March 2018	23.9	6.1	2.6	3.4	36.0
Carrying amount at 31 March 2019	**24.6**	**6.6**	**2.4**	**3.8**	**37.4**

Disposals of military equipment mainly relate to Single Use Military Equipment, including intangibles associated with Tornado aircraft.

Intangible assets 2017-18

	Military equipment £bn	Development expenditure £bn	Software £bn	Licences and other £bn	Total £bn
Cost or valuation:					
At 1 April 2017	35.3	11.3	8.5	9.8	64.9
Additions	1.9	0.8	0.3	1.2	4.2
Revaluations and impairments	0.4	0.2	0.1	-	0.7
Reclassifications	0.1	(0.3)	0.6	0.1	0.5
Disposals	(0.3)	(0.3)	(0.7)	(0.5)	(1.8)
At 31 March 2018	**37.4**	**11.7**	**8.8**	**10.6**	**68.5**
Amortisation:					
At 1 April 2017	(12.5)	(5.3)	(6.0)	(6.6)	(30.4)
Charged in year	(1.0)	(0.5)	(0.8)	(1.0)	(3.3)
Revaluations and impairments	(0.2)	(0.1)	(0.1)	-	(0.4)
Reclassifications	-	-	-	(0.1)	(0.1)
Disposals	0.2	0.3	0.7	0.5	1.7
At 31 March 2018	**(13.5)**	**(5.6)**	**(6.2)**	**(7.2)**	**(32.5)**
Carrying amount at 31 March 2017	22.8	6.0	2.5	3.2	34.5
Carrying amount at 31 March 2018	**23.9**	**6.1**	**2.6**	**3.4**	**36.0**

Note 15. Trade and other receivables

	2018-19 £bn	2017-18 £bn
Non-current:		
Taxation and duties due	5.6	5.0
Trade receivables	1.8	1.7
Other receivables	8.5	11.8
Prepayments and accrued revenue	1.4	1.7
Welfare overpayments	2.1	2.0
Contract assets	1.8	-
Total before impairment	21.2	22.2
Less: provision for impairment of receivables	(3.3)	(3.1)
Total non-current trade and other receivables	**17.9**	**19.1**
Current:		
Accrued tax revenue receivable	116.9	111.6
Taxation and duties receivable	28.2	29.4
Trade receivables	14.4	10.5
Other receivables	12.9	12.8
Prepayments and accrued revenue	12.8	11.9
Welfare overpayments	0.4	0.4
Court fines	3.2	3.0
Contract assets	3.9	-
Total before impairment	192.7	179.6
Less: provision for impairment of receivables	(20.3)	(18.8)
Total current trade and other receivables	**172.4**	**160.8**
Total trade and other receivables	**190.3**	**179.9**

Accrued tax revenue receivable represents amounts of taxes and duties relating to 2018-19 that were not yet due or received from taxpayers at year end, where these have not been included in taxation and duties due and collection is reasonably certain.

Taxation and duties receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received by HMRC.

Contract assets are being shown for the first time due to the implementation of IFRS 15. A contract asset is recognised when an entity has transferred goods and services to a customer and the right to consideration is conditional on something other than the passage of time; such as the fulfilment of other performance criteria specified within the contract. Contract assets are different from trade receivables because a trade receivable is an unconditional right to receive payment subject to the passage of time.

The first-time **adoption of IFRS 9** means that the 2017-18 comparative figures compiled under IAS 39 are calculated on a different basis to those shown for 2018-19 under IFRS 9. Any comparison between the two needs to be qualified in these terms. IFRS 9 does not require the prior year comparatives to be restated.

The provision for impairment of receivables is analysed below:

	Non-current £bn	Current £bn	2018-19 £bn	2017-18 £bn
Taxation and duties due	1.9	9.7	11.6	11.0
Welfare payments	1.1	0.3	1.4	1.0
Court fines	-	2.6	2.6	2.3
Other trade and other receivables	0.3	7.7	8.0	7.6
Total provision for impairment of receivables	**3.3**	**20.3**	**23.6**	**21.9**

Note 16. Other financial assets

	2018-19 £bn	2017-18 £bn
Non-current:		
Loans and deposits	140.7	153.2
Student loans	74.3	67.4
Equity investments	55.4	53.8
IMF quota subscription	21.4	20.8
Derivatives and other financial assets	28.8	28.1
Total non-current other financial assets	**320.6**	**323.3**
Current:		
Debt securities	105.0	101.9
Loans and deposits	64.6	53.2
Student loans	2.6	2.6
Equity investments	0.9	1.0
IMF Special drawing rights	11.8	9.9
Derivatives and other financial assets	9.4	15.7
Total current other financial assets	**194.3**	**184.3**
Total other financial assets	**514.9**	**507.6**

This disclosure is only affected in part by the introduction of IFRS 9 and therefore, in some cases, a meaningful comparison can be made between the current and the prior year figures. Where IFRS 9 does have an impact on the current year figures this is detailed in the relevant narrative and any corresponding comparison between years is qualified accordingly.

Non-current Loans and deposits decreased by £12.5 billion during 2018-19, primarily due to a series of sales by HM Treasury of loans and mortgages held by NRAM Ltd (formerly Northern Rock Asset Management plc) and Bradford and Bingley plc; as part of the government's programme of returning these assets to the private sector.

Current Loans and deposits increased by £11.4 billion during 2018-19. Primarily due to an increase in reverse sale and repurchase agreements held within the Debt Management Account.

Loans and deposits comprise:

	Non-current £bn	Current £bn	2018-19 £bn	2017-18 £bn
Loans	136.8	4.3	141.1	151.6
Deposits	3.9	10.2	14.1	13.1
Repurchase agreements	-	50.1	50.1	41.7
Total loans and deposits	**140.7**	**64.6**	**205.3**	**206.4**

Loans include £5.5 billion (2017-18: £11.5 billion) of mortgage loans provided by UK Asset Resolution Limited (UKAR). The value of loans held by UKAR continues to decrease through redemptions and, most significantly, as part of an on-going programme of sales aimed at returning UKAR's mortgage books to the private sector. Sales in 2018-19 included £983 million of equity release mortgages and a further a portfolio of £4.9 billion of NRAM mortgage assets. A portfolio of £61million of NRAM and B&B commercial loans were also sold in December 2018.

Deposits include those made by local government at commercial banks of £11.9 billion (2017-18: £11.5 billion).

Repurchase agreements are funds advanced to banks under reverse repurchase agreements, where securities are held as collateral and returned when the funds are repaid.

Student loans increased by £6.9 billion as a result of new loans being higher than repayments and valuation changes. A summary of changes for 2018-19 is shown below:

	2018-19 £bn	2017-18 £bn
As at 1 April	70.0	69.4
New loans issued (net of impairment)	17.0	3.2
Effective interest (2017-18 only)	-	2.7
Repayments	(2.0)	(2.6)
Fair value movement	(4.9)	-
Impairment adjustments	(3.2)	(2.7)
Total fair value movement as at 31 March	**76.9**	**70.0**

During 2017-18 student loans were held at amortised cost as required by IAS 39. In 2018-19, under IFRS 9, student loans are recognised at fair value. In determining the fair value of student loans, a discounted cash flow model has been used (see table below) which includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is now recognised in the statement of revenue and expenditure and the Department for Education's statement of comprehensive net expenditure.

	2018-19 £bn
Deferral of the difference in fair value and amount advanced to students on new loans	(7.4)
Changes made to student loan valuation model	(0.6)
Interest	2.0
Operational costs	0.1
Other fair value movement	1.0
As at 31 March	(4.9)

The **equity investments** held by the government comprise:

	2018-19 £bn	2017-18 £bn
RBS	18.6	21.8
European Investment Bank	9.9	9.7
Other	27.8	23.3
Total equity investments	56.3	54.8

The value of RBS ordinary shares decreased by £3.2 billion (2017-18: £1.4 billion increase) £2.5 billion is attributable to HM Treasury's sale of shares on 7 June 2018 as part of the government's policy to return the bank to private ownership, with the remaining £0.7 billion relating to fair value adjustments under IFRS 9. The governments' remaining shareholding in RBS has now reduced to 62.1% as at March 2019.

The increase in value of the government's shareholding in the European Investment Bank is as a result of exchange rate movements during 2018-19 and an increase in the European Investment Bank's net assets. More information on the treatment of this asset after the UK has left the European Union can be found in Chapter 1.

The three largest contributors to 'other' equity include: the Department for International Development investment portfolio £4.9 billion (2017-18: £4.8 billion), the Pension Protection Fund £4.6 billion (2017-18: £3.6 billion) and the Commonwealth Development Corporation equity investment £3.7 billion (2017-18: £3.6 billion).

The IMF quota subscription and Special Drawing Rights (SDRs) relate to the UK's investments in the IMF. On becoming a member of IMF in 1944, the UK was required to pay a quota subscription to the IMF in a mixture of SDRs, the IMF's unit of account, and other widely accepted currencies. The UK's quota subscription of 20.2 billion SDRs was equivalent to £21.4 billion at 31 March 2019, an increase of £0.6 billion compared to the prior year.

Debt securities primarily relate to securities issued or guaranteed by the governments of the United States, Euro-area countries and Japan, which are used to manage the government's foreign currency reserves. The government's increase in debt securities of £3.1 billion during the year is primarily due to exchange rate gains as most reserve currencies increase in value against the sterling.

Note 17. Inventories

	Raw materials and consumables	Other	2018-19 Total	2017-18 Total
	£bn	£bn	£bn	£bn
As at 1 April	6.1	3.8	9.9	9.2
Additions	11.7	4.5	16.2	15.1
Disposals	(10.9)	(4.1)	(15.0)	(14.4)
Write on / (offs)	0.2	(0.2)	-	(0.2)
Revaluation and reclassification	(0.9)	(0.5)	(1.4)	0.2
As at 31 March	**6.2**	**3.5**	**9.7**	**9.9**

Raw materials and consumables include £3.7 billion (2017-18 £4.3 billion) of supplies and spares held by the Ministry of Defence. Inventories are disclosed as a current asset. £0.5 billion of the other inventory category (2017-18 £0.4 billion) relates to High Speed 2 land and property, which is a non-current asset.

Note 18. Cash and cash equivalents

	2018-19	2017-18
	£bn	£bn
Balance at 1 April	34.3	28.3
Net change in cash and cash equivalent balances	9.9	6.0
Balance at 31 March	**44.2**	**34.3**
The following balances at 31 March were held at:		
Government Banking Service	(2.3)	(3.8)
Commercial banks and cash in hand	29.3	18.5
Short term investments	17.2	19.6
Balance at 31 March	**44.2**	**34.3**

Cash and Cash Equivalents increased by £9.9 billion (28.9%). There was a £10.6 billion increase in cash held in commercial Banks by the Exchange Equalisation

Account (EEA), most of the EEA cash held at commercial banks is held at foreign central banks. The EEA is an account that holds the UK's reserves of gold, foreign currencies and IMF Special Drawing Rights.

There was a decrease in short term investments held by a range of public sector bodies including the Nuclear Liabilities Fund, the National Loans Fund, and the Bank of England.

Cash held at the Government Banking Service shows a balance of negative £2.3 billion. This consists of positive balances held by government departments as part of the Government Banking Scheme, offset by a negative balance of £22.9 billion held by the National Loans Fund. The overall balance is negative due to the way that government undertakes cash management.

Note 19. Trade and other payables

	2018-19 £bn	2017-18 £bn
Non-current:		
Trade and other payables	6.0	9.8
Accruals and deferred income	9.9	12.7
Imputed finance lease element of on-balance sheet PFI contracts	36.2	37.4
Obligations under finance leases	4.7	4.5
Contract liabilities	1.8	-
Total current trade and other payables	**58.6**	**64.4**
Current:		
Trade and other payables	43.4	42.4
Accruals and deferred income	50.9	49.2
Refunds of taxation and duties payable	34.7	33.3
Imputed finance lease element of on-balance sheet PFI contracts	1.7	1.6
Obligations under finance leases	0.3	0.3
Contract liabilities	2.3	-
Total non-current trade and other payables	**133.3**	**126.8**
Total trade and other payables	**191.9**	**191.2**

Trade and other payables and **accruals and deferred income** were held across a wide range of public sector entities and relate to both day-to-day business delivery costs and other financial obligations.

Refunds of taxation and other duties payable relates mainly to council tax and business rates owed to the taxpayer, amounts due to VAT traders where their claim was received after the end of the year and amounts in respect of Corporation Tax, Income Tax and other small taxes expected to be repayable by HMRC pending finalisation of taxpayer liabilities.

Contract liabilities are recognised where an entity has received consideration from a customer prior to the transfer of goods and services. These items would have previously been recognised as deferred income in the prior year. The largest balance of contract liability are the sums received on account by the Nuclear Decommissioning Authority relating to income from long term contracts.

Further information on **obligations under finance leases** can be found in Note 26 while further information on **PFI commitments** can be found in Note 27.

Note 20. Government borrowings

	2018-19 £bn	2017-18 £bn
Non-current:		
Gilts	1,100.0	1,071.8
Total non-current government borrowings	**1,100.0**	**1,071.8**
Current:		
National Savings and Investment products (NS&I)	167.6	156.7
Treasury bills	79.7	68.7
Gilts	59.9	50.2
Total current government borrowings	**307.2**	**275.6**
Total government borrowings	**1,407.2**	**1,347.4**

The Government borrows to make up the shortfall between income and expenditure (including any capital expenditure). The National Accounts show a clearer picture of government borrowing used for the financing of deficits, and more detail on this can be found in Chapter 1.

NS&I products are a range of secure savings and investments offered to the public, that are backed by the Exchequer. They provide the government with a source for financing public spending. Further details of these products and NS&I's 2018-19 accounts can be found on the NS&I website.

Treasury bills are issued by the Debt Management Office (DMO) and, along with other money market operations, are used by the DMO to meet the government's daily cash requirements. Further details on these operations can be found in the Debt Management Report 2018-19.

Gilts are UK government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Price Index. As the government's debt manager, the DMO sells gilts to the market to ensure enough funding is available to meet the government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, except for gilts held by funded public sector pension schemes. Further details regarding gilts are available in the Debt Management Report 2018-19 and the 2018-19 accounts of the National Loans Fund.

Further information on the government's financial risk, including liquidity and funding risk, is included in Note 23.

Note 21. Other financial liabilities

	2018-19 £bn	2017-18 £bn
Non-current:		
Deposits by banks	2.8	2.3
Bank and other borrowings	70.3	67.2
Debt securities	4.5	4.5
Derivatives	19.3	24.1
Financial guarantees	0.3	0.2
Other financial liabilities	0.9	0.5
Total non-current other financial liabilities	**98.1**	**98.8**
Current:		
Deposits by banks	554.0	555.8
Banknotes in circulation	74.2	73.3
Bank and other borrowings	7.3	8.3
IMF Special Drawing Rights liability	10.8	10.5
Debt securities	0.9	1.1
Derivatives	4.9	5.0
Total current other financial liabilities	**652.1**	**654.0**
Total other financial liabilities	**750.2**	**752.8**

Deposits by banks mainly consists of deposits held by the Bank of England. The deposits are the reserves held for banks and building societies, that are repayable on demand, and are the means by which banks and building societies settle transactions.

Banknotes are issued by the Bank of England. In 2018-19 there has been a slight increase in the value of notes in circulation as compared with the prior year when the trend was flat.

Bank and other borrowings include loans and overdrafts. One of the largest elements in this category is the £24.2 billion (2017-18: £25.7 billion) of Network Rail total outstanding debt; as reported by the Department for Transport.

The **International Monetary Fund (IMF) Special Drawing Rights (SDRs)** liability has increased slightly in 2018-19 to £10.8 billion (2017-18: £10.5 billion) due to exchange rate changes. This relates to the UK's participation in the Special Drawing Rights Agreement. A corresponding current asset of £11.8 billion for the UK's actual holdings of SDRs is included in Note 16.

Derivatives include the £12.9 billion (2017-18: £15.8 billion) liability held by the Department for Business, Energy and Industrial Strategy (BEIS) relating to contracts for difference (CfDs). Contracts for difference are a mechanism used to support investment in UK low carbon energy generation projects. Other derivatives relate to the Pension Protection Fund of £4.9 billion (2017-18: £6.1 billion) which are interest rate swaps, options, credit default swaps and forward foreign exchange contracts to support liability-driven investment.

Debt securities comprise securitised notes and covered bonds issued by HM Treasury group and the Bank of England to securitise loans to customers and to raise unsecured medium-term funding.

Note 22. Provisions for liabilities and charges

Provisions for liabilities and charges

	Nuclear decommissioning	Clinical negligence	Other provisions	2018-19 Total	2017-18 Total
	£bn	£bn	£bn	£bn	£bn
At 1 April	263.4	78.4	80.7	422.5	322.2
Provisions utilised in year	(2.8)	(2.6)	(7.9)	(13.3)	(10.1)
New provisions or increase in expected future pay-outs	4.5	10.6	18.2	33.3	27.9
Provisions not required written back	(2.4)	(2.3)	(9.7)	(14.4)	(9.2)
Change in discount rate	(96.0)	0.3	(5.8)	(101.5)	94.0
Discount rate unwind	(14.6)	0.4	(0.1)	(14.3)	(0.6)
Transfers to/from payables and other movements	0.1	0.5	(1.5)	(0.9)	(1.7)
At 31 March	**152.2**	**85.3**	**73.9**	**311.4**	**422.5**

Provision movement

Provision movement	2018-19 £bn	2017-18 £bn
Amounts included in the Statement of Revenue and Expenditure:		
Increase in provisions	21.0	15.2
Provision expense in cost to public services	**21.0**	**15.2**
Discount rate changes	(101.5)	94.0
Discount rate unwind	(14.3)	(0.6)
Provision financing costs	**(115.8)**	**93.4**
Total expenditure recognised in the Statement of Revenue and Expenditure	**(94.8)**	**108.6**
Amounts included in the Statement of Financial Position	(3.0)	1.8
Pay-outs made in year	(13.3)	(10.1)
Total provision movement	**(111.1)**	**100.3**

Provision profile

	Nuclear decommissioning £bn	Clinical negligence £bn	Other provisions £bn	2018-19 Total £bn	2017-18 Total £bn
Within one year	3.1	2.9	11.7	17.7	16.4
Between one and five years	12.7	12.7	20.9	46.3	49.1
Thereafter	136.4	69.7	41.3	247.4	357.0
Total provision liability	**152.2**	**85.3**	**73.9**	**311.4**	**422.5**
Current provisions	3.1	2.9	11.7	17.7	16.4
Non-current provisions	149.1	82.4	62.2	293.7	406.1

Total provision liability decreased by £111.1 billion as at 31 March 2019 from £422.5 billion in 2017-18 to £311.4 billion in 2018-19. Of the £311.4 billion;

- £152.2 billion (2017-18: £263.4 billion) is for nuclear decommissioning
- £85.3 billion (2017-18: £78.4 billion) is for clinical negligence
- £26.1 billion (2017-18: £23.2 billion) is for the Pension Protection Fund

The decrease underlines the uncertainty surrounding costs estimations on a long timescale and discount rate assumptions. A large proportion of the decrease is as a result of the change in the discount rate used to produce a discounted present value.

In addition to expenditure incurred in the period, changes to the discount rate assumption have decreased the provision values and resulted in a significant negative expense.

Provisions are recognised when an entity has a present legal or constructive obligation as a result of a past event, it is probable that the entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, considering the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using discount rates prescribed by HM Treasury.

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

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

Inflation assumptions

In using nominal rates there is a need to inflate cashflows as such rates do not take a measure of inflation into account unlike real discount rates. HM Treasury provides the Office of Budget Responsibility (OBR) Consumer Price Index (CPI) forecasted inflation rates to be employed to expected cash flows, except where an entity has judged there is a reasoned basis for alternative rates to be employed. They are based on what is judged to be the most statistically reliable measure of inflation.

Impact of changes in discount rate

Some of government priorities carry obligations that are very long-term and will involve expenditure over decades to come. The eventual costs of these long-term projects are uncertain, but entities are required to present a single number in the annual accounts. This single number is based on best estimate of costs, technology and other relevant factors, adjusted to reflect the changing value of money over time. The worth of future cash flows is calculated at present value in accordance with accounting standards. Provision discount rates set by HM Treasury are updated annually and have a material effect on liabilities. Previously HM Treasury issued real rates based upon the real yield of UK index-linked gilts. From 2018-19 onwards, HM Treasury issued nominal rates that do not take account of inflation, unlike real rates. Using these nominal rates, the cash flows are inflated using inflation rates provided by HM Treasury except where a more appropriate forecast has been identified for specific provisions.

Summary table of general provisions discount rates applied for the last five years	2018-19	2017-18	2016-17	2015-16	2014-15
Short-term	0.76%	-2.42%	-2.70%	-1.55%	-1.50%
Medium-term	1.14%	-1.85%	-1.95%	-1.00%	-1.05%
Long-term	1.99%	-1.56%	-0.80%	-0.80%	2.20%
Very long-term	1.99%	-	-	-	-

The long-term discount rate has been negative since 2015 except for 2018-19. When negative discount rates are applied to the government's long-term obligations, this has the effect of significantly increasing the reported value of the liabilities, however, with the decrease of the negative discount rate this has resulted in a decrease in the report value of the liabilities this year. The cash the entity expects to pay does not change substantially, year on year, it just changes how the amount is expressed in today's money.

Provision for nuclear decommissioning

Department for Business, Energy & Industrial Strategy (BEIS) £131.3 billion

HM Treasury provided nominal and inflation rates for discounting provisions for 2018-19, rather than real rates as they have done in prior years. The rates used by Department for Business Energy and Industrial Strategy for the provision for nuclear decommissioning are real rates for 2018-19 taking into account the nominal and inflation rates supplied by HMT for 2018-19.

The nuclear provision represents the discounted estimated cost of the decommissioning mission over approximately 120 years. Both the Nuclear Decommissioning Authority and the Coal Authority have long-term provisions relating to the expected future cost of managing the energy legacy. The negative discount rates have increased the present value of future cash flows significantly. The Nuclear Decommissioning Authority's management's best estimate of the future costs of the estate is based on an assumed inventory of materials, using strategies for retrieval and disposal over several decades. Each of these elements (quantity, method and time to treat) is uncertain, as is the cost of developing the necessary technology and plans to deal with these activities. The quality of the forecast may become less certain with time and acceptable standards of clean-up and end states may change.

Equivalent real discount rates as applied by BEIS for nuclear decommissioning:

	2018-19	2017-18	Period from consolidated position
Short -term	-1.22%	-2.42%	0 to 5 years
Medium-term	-1.31%	-1.85%	5 to 10 years
Long-term	-0.94%	-1.56%	10 to 40 years
Very long-term	-0.11%	-1.56%	Over 40 years

The impact of the change in the discounting approach is included in the "Change in discount rate" movement of provisions. Where expenditure in settlement of a provision is expected to be recovered from a third party, the recoverable amount is treated as a separate asset. Provision charges in the SoCNE are shown net of changes in these recoverable amounts.

Ministry of Defence £11.4 billion

Provisions have been made for the cost of decommissioning facilities and for the treatment, storage, and disposal of nuclear waste arising from operations at Rosyth and Devonport dockyards and at Atomic Weapons Establishment sites. Provisions are also included for the future cost of decommissioning operational nuclear submarines and likewise for the cost of decommissioning those which have reached their out of service date. Provisions have also been made for the cost of the treatment, storage and disposal of the nuclear materials, irradiated fuel and radioactive waste arising from in the Defence Nuclear Programme as well as for the decommissioning of sites, facilities and 30 out of service and operational submarines for which the MOD is ultimately responsible.

The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 118 years. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them.

Provision for clinical negligence

The Department of Health and Social Care provides for future costs in several cases where it is the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence. NHS England, NHS Foundation Trusts and NHS Trusts retain legal responsibility for all liabilities covered by the clinical negligence schemes: the Ex-Regional Health Authority Scheme (ex RHA), Existing Liabilities Scheme (ELS) and Clinical Negligence Scheme for Trusts (CNST), but NHS Resolution (NHSR) accounts for all the liabilities under these separate schemes. Actuaries appointed by NHSR undertake regular reviews to identify movements in the value of likely future settlements under these schemes, and these are recorded in the NHSR's annual accounts.

Calculation of the provision for each scheme is made using:

- probability factors: the probability of a claim having to be settled is assessed between 10% and 94%. This probability is applied to the gross value to give the probable cost of each claim
- a discount factor calculated using HM Treasury's nominal discount rates, RPI of 3.6% and claims inflation (varying between schemes) of between 4% and 10%, is applied to the probable cost to take into account the likely time to settlement

The difference between the gross value of claims and the amount of the provision is also discounted, considering the likely time to settlement, and is included in contingent liabilities as set out in Note 17 of DHSC accounts.

Due to the long-term nature of the liabilities and the assumptions on which the estimate of the provision is based, some uncertainty about the value of the liability remains. The clinical negligence provision's value is particularly sensitive to changes in the long-term discount rate given its nature. Other factors affecting the value of the clinical negligence liability which are subject to estimation and assumption include patterns of delay in reporting incidents, assumptions regarding the severity, frequency and/or value inflation of claims, the differential between Retail Price Index (RPI) and Annual Hourly Earnings index over the long-term and life expectancy.

The HM Treasury Public Expenditure System discount rate note from December 2018 states that all cash flows should be assumed to increase in line with the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) inflation rates unless three specific conditions are met. NHS Resolution have determined that in relation to Clinical Negligence the three conditions have been met and have therefore used alternative inflation measures. Further information and detail are available in NHS Resolution's Annual Report and Accounts.

For 2018-19, general provisions were subject to four separate nominal discount rates as prescribed by HM Treasury, according to the expected timing of cashflows. A nominal short-term rate of positive 0.76% (2017-18 a real rate of negative 2.42%) is applied to expected cash flows in a time boundary of between 0 and up to and including 5 years from the Consolidated Statement of Financial Position date. A nominal medium-term rate of positive 1.14% (2017-18 a real rate of negative 1.85%) is applied to the time boundary of after 5 and up to and including 10 years. A nominal long-term rate of positive 1.99% (2017-18 a real rate of negative 1.56%) is applied to the time boundary of after 10 and up to and including 40 years from the Consolidated Statement of Financial Position date. A nominal very long-term rate of positive 1.99% (2017-18 a real rate of negative 1.56%) is applied to expected cashflows exceeding 40 years from the Consolidated Statement of Financial Position date.

Clinical negligence claims which may succeed, but are less likely or cannot be reliably estimated, are accounted for as contingent liabilities. Known reported claims are individually valued using likely costs to resolve the claim and probability factors to take account of the potential of a successful defence, whilst Incidents Incurred but Not Reported (IBNR) claims are valued using actuarial models to predict likely values. The value of the DHSC provision increased by £6.4 billion in 2018-19 from £76.7 billion at 31 March 2018 to £83.1 billion at 31 March 2019. £0.3 billion of this increase is related to a change in the HMT discount rate, and a £6.1 billion net movement on provisions created and written back in the year, utilised, and unwinding of discount. These provisions represent the English element of the clinical negligence provision shown in the accounts and is the value in today's prices of the cost of claims arising from harm that occurred up to 31 March 2019. In 2018-19 NHSR received 10,678 new clinical negligence claims, compared to 10,673 in 2017-18, a relatively flat profile with an increase of just five claims (0.08%). As many claims are not paid out immediately but instead involve payments over many years, the liability includes determined claims as well as claims that are considered likely to be determined in the claimant's favour.

Other provisions

Other provisions include a wide range of provisions across all parts of the public sector. These include provisions in relation to: injury benefits, medical costs, criminal injuries compensation, legal costs, compulsory purchases, concessionary fuel allowance to ex-miners, mine water treatment, public safety and subsidence, subsidence pumping stations and tip management, claims in respect of structural damage and diminution of value of properties affected by transport schemes, and compensation payments for termination of employment. The most significant provisions included in this balance are identified below:

Financial Assistance Scheme £5.7 billion (2017-18: £7.6 billion)
This is held by the Department for Work and Pensions (DWP). FAS aids members of defined benefit occupational pension schemes that were wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005. The FAS assistance scheme provision is to provide for the liabilities arising from any FAS qualifying schemes once the assets from such schemes have transferred to government. The provision is an estimate of the current value of the liability to make payments to pensioners under the FAS scheme. A change in the discount rate during 2018-19 has created the £1.6 billion change in the value of the provision.

Pension Scheme claims £26.1 billion (2017-18: £23.2 billion)
This is held by the Pension Protection Fund relating to liabilities to pay compensation to members and claims from pension schemes. The Pension Protection Fund retains the assets of the pension plans it rescues and generates investment growth to support the obligations it acquires. At 31 March 2019, it had £32.1 billion of assets under management, £9 billion in excess of its liabilities

Oil and gas field decommissioning £8.3 billion (2017-18: £12.9 billion)
This is where companies decommissioning oil and gas infrastructure in the North Sea are entitled to recover tax previously paid in relation to profits from those oil and gas fields. As at 31 March 2019, HMRC estimates that it will have to repay £8.3 billion (2017-18: £12.9 billion) of tax in relation to oil and gas field decommissioning. This is the estimated amount that HMRC will repay to oil and gas companies and is based on an estimate of the decommissioning costs that they will incur in future periods. In 2018-19, companies recovered £0.5 billion of Petroleum Revenue Tax (PRT) from HMRC in relation to decommissioning losses. In addition to repayments of PRT, HMRC estimates that it will forgo a further £11.1 billion of future tax income because of decommissioning expenditure reducing taxable profits.

Legal Claims £4.7 billion (2017-18: £5.9 billion)
This is where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. The main reason for the reduction since 2017-18 is that HMRC’s current legal advice indicates that its exposure to ongoing legal cases has reduced.

Note 23. Financial instruments

IFRS 9 introduces new reporting requirements for financial instruments and applies to annual reporting periods beginning on or after 1 January 2018. IFRS 9 does not require prior year comparative information to be restated. Therefore, WGA will apply

IFRS 9 without the restatement of comparatives from 1 April 2018. This is due to an adaptation to the government financial reporting manual.

This financial instrument note has two parts. The first part provides information on the significance of financial instruments on the government's balance sheet. The second part provides information about the nature and extent of risks arising from financial instruments and what the government does to manage these risks.

Financial assets by category 2018-19

	Note	Cash and cash equivalents	Amortised Cost	Fair Value Through Profit or loss (FVTPL)	Fair Value Through Other Comprehensive income (FVTOCI)	2018-19 Total
		£bn	£bn	£bn	£bn	£bn
Cash and cash equivalents	18	44.2	-	-	-	44.2
Trade and other receivables	15	-	190.3	-	-	190.3
Debt securities	16	-	-	105.0	-	105.0
Loans and deposits (including REPOS)	16	-	183.0	16.3	6.0	205.3
Student loans	16	-	-	76.9	-	76.9
Equity investments	16	-	-	29.0	27.3	56.3
IMF quota subscription	16	-	-	21.4	-	21.4
IMF Special Drawing Rights	16	-	-	11.8	-	11.8
Other	16	-	8.9	28.7	0.6	38.2
Total financial assets		44.2	382.2	289.1	33.9	749.4

Most **debt securities** (£81.0 billion, 2017-18: £73.6 billion) are held in the EEA, and comprise the UK's official holding of international reserves. The government holds foreign currency reserves on a precautionary basis to meet current policy objectives to regulate the exchange value of sterling and any potential future changes in policy.

Other significant financial assets include those lent under the Funding for Lending Scheme (FLS). Under FLS participating banks and building societies could until January 2018 borrow Treasury Bills from the Bank of England in exchange for eligible collateral. As at 31 March 2019, on an amortised cost basis, £23.2 billion (2017-18: £39.2 billion) of Treasury bills issued for the FLS were outstanding; further details are available from the accounts of both the National Loans Fund and the Bank of England.[3]

Balances with the IMF are made up of the IMF quota subscription (£21.4 billion, 2017-18: £20.8 billion) and IMF SDRs (£11.8 billion, 2017-18: £9.9 billion). SDRs are an international reserve asset created by the IMF. SDRs represent a claim to currency held by IMF member countries for which they may be exchanged. The government's holdings result from SDR allocations made by the IMF, any subsequent purchases and sales of SDRs from or to other IMF members and fair value changes.

The largest balance within **other financial instruments** is derivatives (£8.2 billion, 2017-18: £10.6 billion). Of the derivative balance the largest individual material balances are with the Pension Protection Fund (PPF) (£5.4 billion, 2017-18: £6.2 billion), and EEA (£1.7 billion, 2017-18: £3.0 billion). The PPF manage the risks associated with this by using counterparties rated at least A- (or subject to increased collateral) and are subject to overall exposure limits. The EEA manage the risks associated with this by counterparty and issuer limits and collateralisation. Further details can be found in the PPF and EEA accounts.

Financial liabilities by category 2018-19

	Note	Carried at amortised cost	Fair Value Through Profit or Loss (FVPL)	2018-19 Total
		£bn	£bn	£bn
Trade and other payables	19	191.9	-	191.9
Government borrowings	20	1,407.2	-	1,407.2
Deposits by banks	21	523.4	33.4	556.8
Banknotes in circulation	21	74.2	-	74.2
Bank and other borrowings	21	77.6	-	77.6
Derivatives	21	-	24.2	24.2
Debt securities	21	5.4	-	5.4
IMF Special Drawing Rights liability	21	-	10.8	10.8
Financial guarantees	21	0.2	0.1	0.3
Other	21	0.7	0.2	0.9
Total financial liabilities		2,280.6	68.7	2,349.3

There have been no substantive changes to the disclosure of financial liabilities under IFRS 9 within the 2018-19 WGA. The only new requirement in IFRS 9 for

[3] https://www.gov.uk/government/publications/national-loans-fund-account-2018-to-2019

financial liabilities relates to change in the fair value of an entity's own debt instruments under the fair value option. This new requirement is to prevent entities from recognising gains in profit and loss when their own credit quality declines.

In most cases the value of assets and liabilities shown on the statement of financial position either equals or is a reasonable approximation of fair value. The main exceptions are government borrowings and the Contracts for Differences (CfD) liability (included in derivatives in the table above). Gilt-edged securities have a carrying amount of £1,160.0 billion (2017-18: £1,122.0 billion) and a fair value of £1,496.1 billion (2017-18: £1,427.1 billion), reflecting the higher amount that investors are willing to pay in order to secure a certain level of interest payment. The CfD liability has a carrying value of £12.9 billion (2017-18: £15.8 billion) and a fair value of £35.2 billion (2017-18: £39.2 billion). The decrease of £4.0 billion in fair value is mainly due to revisions to the wholesale price electricity forecasts that are expected to be achieved by generators and payments made during the 2018-19 year. The best estimate of fair value as at 31 March 2019 for the Hinkley Point C (HPC) CfD liability is £30.3 billion (2017-18: £36.6 billion). However, it should be noted that this liability has not been recognised in the WGA financial statements. This is due to the unavoidable uncertainties in creating a fair value estimate for HPC. Further details can be found in the Department for Business, Energy and Industry Strategy (BEIS) annual report and accounts[4], and in Note 2 of WGA.

The government also has gold holdings which are treated as being like a financial asset and are reported at fair value based on the sterling equivalent of the dollar denominated spot bid price as at 31 March 2019. During 2018-19, the price of gold rose from £943 to £994 per ounce, an increase of 5% giving rise to a revaluation gain of £508 million.

Fair value hierarchy

Assets and liabilities carried at fair value are valued using a 'fair value hierarchy' which gives highest priority to quoted prices in active markets for identical instruments (level 1 inputs), second priority to valuation techniques based on observable inputs (level 2) and lowest priority to valuation techniques using unobservable inputs. Where valuation techniques are based on unobservable inputs (level 3) then the appropriate valuation technique is chosen, including use of discounting of future cash flows and the use of the net asset values underlying the unquoted equity investment. The table below summarises asset and liability fair values based on the valuation technique used.

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/824924/beis-annual-report-accounts-2018-2019-web.pdf

Fair value hierarchy 2018-19

	Level 1 £bn	Level 2 £bn	Level 3 £bn	2018-19 Total £bn
Financial assets at fair value:				
Debt securities	96.3	5.8	2.9	105.0
Equity investments	30.9	1.1	24.3	56.3
IMF quota	-	21.4	-	21.4
IMF Special Drawing Rights	11.8	-	-	11.8
Loans and deposits (including REPO)	10.4	6.4	5.5	22.3
Student loans	-	-	76.9	76.9
Other	3.8	19.8	5.7	29.3
Financial liabilities at fair value:				
Deposits by banks	(4.1)	(29.3)	-	(33.4)
IMF SDR allocation	(10.8)	-	-	(10.8)
Other	(0.1)	(11.2)	(13.2)	(24.5)

The most significant individual level 3 assets balance is student loans which is not observable market data. Further details can be found in the annual report and accounts of the Department for Education. Second is the CfD contracts which use a discounted cash flow methodology, further details can be found in the annual report and accounts of BEIS.

The most significant level 3 asset within equity investments is in the European Investment Bank (EIB). The valuation of this asset changes based on the movement in the EIB's net assets and changes in exchange rates. Further details can be found in the accounts of the Consolidated Fund.[5]

Liquidity risk

The government's objective when funding its activities is to minimise, over the long term, the costs of meeting the government's financing needs considering risk, while ensuring that debt management policy is consistent with the aims of monetary policy.

Each year, the government assesses the costs and risks associated with different possible patterns of debt issuance, considering the most up-to-date evidence and information about market conditions and demand for debt instruments. This information is used to set the Debt Management Office's (DMO's) financing remit which is published alongside the Budget and updated during the year to reflect changes to the government's cash requirements.

5 https://www.gov.uk/government/publications/consolidated-fund-account-2018-to-2019

There is a risk that the government will need to roll over high levels of debt continuously, or redemptions will be concentrated in particular years; this risk is mitigated by taking decisions which spread gilt issuance along a maturity spectrum.

The issuance profile used in 2018-19 is summarised below:

	Short conventional (0-7 years)	Medium conventional (7-15 years)	Long conventional (over 15 years)	Index linked	Unallocated
2018-19 debt issuance %	27%	22%	30%	22%	0%

Local authorities adopt independent liquidity risk management, and this is done within a statutory framework. Local authorities are required by the Local Government Finance Act 1992 to provide a balanced budget, which ensures enough funds are raised to cover annual expenditure. Medium term plans generally set targets for liquidity ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities can access borrowings from the money markets to cover any day to day cash flow need and can access longer term funds from financial institutions or from the government's Public Works Loan Board. Balances between the Public Works Loan Board and local authorities are eliminated on consolidation within WGA.

Interest rate risk

At present, annual debt management decisions are made in the context of an elevated level of debt relative to gross domestic product (GDP), high but falling government borrowing and fiscal consolidation. As a result, subject to cost-effective financing, the government has decided to maintain a relatively high proportion of fixed-rate exposure at a relatively long average maturity in the debt portfolio to limit exposure to interest rate volatility. The government is exposed to cash flow interest rate risk on its remaining floating-rate investments and borrowings.

The most significant floating rate investments and borrowings are index-linked gilts and National Savings & Investments (NS&I) products, debt issued by Network Rail and student loans. Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk.

Index-linked gilts expose the government to both interest rate risk and inflation risk whereby interest and redemption amounts paid on index-linked gilts vary monthly in line with changes in RPI. If interest rates were to increase by 100 basis points then this would increase the government's borrowing costs by £1.4 billion (2017-18: £1.2 billion) and if RPI were to increase by 100 basis points then the government's borrowing costs would rise by £4.8 billion (2017-18: £4.5 billion). An element of this would be eliminated within the government boundary.

Network Rail has a combination of fixed, floating, index-linked debt issuances. As with the government's gilt portfolio, this gives rise to interest rate risk and inflation risk. Taking into account the impact on fair-valued debt issuances and the derivatives Network Rail uses to manage interest rate risk, if interest rates were to increase by 100 basis points then this would decrease Network Rail's net expenditure by £0.5 billion (2017-18: £0.3 billion decrease) and if the RPI were to increase by 100 basis points then Network Rail's net expenditure would increase by £0.2 billion (2017-18: £0.2 billion increase).

The interest rate on pre 2012 student loans is the lower of RPI and the Bank of England base rate plus 1%. The amount of interest repayable is therefore subject to fluctuations in base rates and RPI. The impact of the interest rate risk for student loan issued under the pre 2012 scheme is factored into the carrying value as the student loan repayment model calculates the impact of the interest rate on expected future cash flows. There is inherent risk in forecasting the amount of interest payable and if the UK experiences base rates that are lower than RPI the future cash flows will be impaired further. It would require a change in RPI of 3.2% (2017-18: 2.6%) to decrease the value of the pre 2012 loan book by 1%. The same change in the post 2012 undergraduate full time loan book would require a 4.1% (2017-18: 4.0%) decrease in RPI to increase the value of the loan book by 1%, with a 4.1% (2017-18: 3.7%) increase in RPI to decrease the value of loan book by 1%.

Credit risk

The categories of financial assets where the main credit risks are found are: loans and deposits (£205.3 billion) and student loans (£76.9 billion).

Loans and deposits mainly comprise loans provided through the Term Funding Scheme (TFS) of £121.4bn (2017-18: £127.1bn). The Bank of England manages credit risk by ensuring that exposures are fully backed by collateral, with appropriate adjustments made between the asset market value and the value that can be used for collateral purposes. The range of collateral can include mortgage-backed securities, covered bonds with preferential terms backed by a pool of mortgages or public sector securities, or portfolios of loans in unsecured form. The collateral must meet published eligibility criteria. A summary of eligible criteria is available on the Bank of England website, and further details can be found in the Bank of England annual report and accounts.[6]

A further £50.1 billion (2017-18 £41.7 billion) of loans and deposits arise from reverse sale and repurchase agreements. These agreements are mainly entered into by the Bank of England, DMA, and EEA. Exposures to credit risk are fully collateralised and assets held as collateral are revalued daily. The government returns collateral to the provider of collateral, or requests additional collateral, depending on whether the value of collateral has risen or fallen. Details on collateral held under these agreements can be found in the accounts of the Bank of England, the DMA and the EEA.

Loans and deposits also include mortgage loans made by UKAR (£5.5 billion, 2017-18: £11.5 billion) which are not rated but are assessed for expected credit loss. Details on the credit quality of these mortgage loans can be found in UKAR's accounts.

Student loans are a source of a credit risk. Eligible students can get loans regardless of their credit rating in order to support the policy aim of encouraging students to enter higher and further education. There is no obligation to repay the loan until the borrower's income reaches a certain income threshold and there are other circumstances when the loan will be written off, for example based on the age of the student. Therefore, even though most repayments are collected by HMRC as part of the tax collection process, not all the loans will be repaid.

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6 https://www.bankofengland.co.uk/asset-purchase-facility/2019/2018-19

The total balance sheet value of student loans provided by government, including those via the devolved administrations, is £76.9 billion (2017-18: £70.0 billion). The Department for Education, representing English students, holds £67.9 billion (2017-18: £61.1 billion). The face value of the Department for Education's loan book was £116.8 billion (2017-18: £101.9 billion face value). In December 2018, the government completed the second sale of part of the Department for Education's pre-2012 English student loan book. The balance sheet value of the loans sold was £3.1 billion (2017-18: £2.6 billion) under the revised FVTPL approach, leading to a loss on disposal of £1.1 billion (2017-18: £0.9 billion), this loss has been recorded in the DfE SoCNE. The remaining loan book continues to be accounted for under fair value per IFRS 9. In determining the fair value of student loans, DfE has used a discounted cash flow model and this includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is now recognised in the DfE statement of comprehensive net expenditure.

The impact of credit risk and policy decisions on repayment conditions on all Department for Education student loans are shown by the following table of fair value assets:

	Balance sheet value £bn	2018-19 closing FV adjustment under IFRS 9 £bn	Balance sheet value £bn	2017-18 Revised FV Provision £bn
Pre-2012 higher education loans	22.8	11.4	26.4	12.4
Post 2012 higher education loans	45.1	37.4	34.7	28.4
IFRS 9 transition cumulative	-	-	(0.5)	0.5
Total student loans held by Department for Education	**67.9**	**48.8**	**60.6**	**41.3**

Following the adoption of IFRS 9 **Expected credit loss** (ECL) “forward-looking model”, it is no longer necessary for a loss event to have occurred before credit losses are recognised. WGA entities are now required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to both debt instruments accounted for at amortised cost and at FVTOCI.

	Expected Credit loss for assets held at amortised cost					
Financial assets impaired	Gross financial assets £bn	Stage 1 £bn	Stage 2 £bn	Stage 3 £bn	Simplified Impairment rule £bn	Net financial assets £bn
Trade and other receivables	43.2	-	-	-	(8.0)	35.2
Loans held at amortised costs	141.2	(0.5)	(0.1)	-	-	140.6
Total financial assets	**184.4**	**(0.5)**	**(0.1)**	**-**	**(8.0)**	**175.8**

Stage 1: assets for which there has been no significant increase in credit risk since the asset's origination the impairment provision reflects the next 12 months' ECL.

Stage 2: assets for which there has been a significant increase in credit risk since the asset's origination the impairment provision reflected full lifetime ECL.

Stage 3: assets which are in default, interest income is recognised only in respect of the balance net of impairment.

The above table illustrates:

- The WGA note most affected by the changes to the impairment of financial assets, under IFRS 9, is note 15 (Trade and other receivables). The format of this note changes as a result of IFRS 9. However, due to the change in the impairment methodologies, additional narrative has been added to this note to clarify that the 2017-18 comparative figures, under IAS 39, are calculated on different basis to those shown for 2018-19 under IFRS 9; therefore any comparison between the two needs to be qualified in these terms.

- Entities should apply the simplified expected credit loss model approach to trade receivables. Contract assets and lease receivables, when they meet certain criteria, shall always measure the loss allowance at an amount equal to lifetime expected credit loss. WGA entities can select their own accounting policy for trade receivables, lease receivables and contract assets independently. In 2018-19, WGA entities have £8.0 billion expected credit loss under trade and other receivables.

- Most of loans held at amortised cost consist of Term Funding Scheme loans (TFS) of £121.4 billion. The Bank of England manages credit risk associated with these loans by ensuring that exposures are fully backed by collateral.

- Most of the loan liabilities held at amortised cost of £0.5bn are classified as Stage 1, which means these assets have had no significant increase in credit risk since the asset's origination.

Foreign currency assets inevitably carry some element of credit risk. In order to keep this risk at a low level, the government predominantly invests in securities issued, or guaranteed by, the national governments of the United States, Euro area countries and Japan. The EEA debt securities are held at an equivalent external rating of AA and above (£76.2 billion, 2017-18: £68.9 billion restated) and A to AA (£ 4.8 billion, 2017-18: £4.6 billion restated) and were held within Europe (£30.3 billion, 2017-18: £30.5 billion), North America (£45.9 billion, 2017-18: £38.5 billion), and Asia-Pacific (£4.7 billion, 2017-18: £4.5 billion). Further details on the government's credit risk management of foreign currency reserves can be found in the 2018-19 Exchange Equalisation Account.

Foreign exchange rate risk

The government is mainly exposed to foreign exchange risk on the UK's official holdings of international reserves ('the Official Reserves'). Foreign currency reserves are held on a precautionary basis that could be used, when necessary, to regulate the exchange value of sterling, and is the mechanism through which any UK government exchange rate intervention would be conducted, for example in the event of any unexpected shocks.

The Official Reserves comprise two components: reserves that are hedged for currency and interest rate risk ('the hedged reserves'), and the remaining reserves which are unhedged for currency and interest rate risk ('the unhedged reserves'). The Official Reserves comprises assets held by the Exchange Equalisation Account (EEA) consisting of the UK's reserves of gold, foreign currency assets, and IMF SDRs, and assets held in the National Loan Fund (NLF) comprising the UK's Reserve Tranche Position at the IMF and lending to the IMF.

The Treasury has appointed the Bank of England to act as its agent in the day-to-day management of the EEA in accordance with an agreed framework and to manage the foreign currency assets and liabilities associated with the reserves of the NLF. [7] The Bank of England monitors and controls market risk primarily by using a Value at Risk (VaR) model. This estimates a loss level that will not be exceeded at a specified confidence level, over a defined period, so that losses will not exceed the VaR figure in 99 out of 100 two-week periods.

The Bank reports the VaR on a benchmark reserve on a six-monthly basis. The values of the benchmark reserves are based on market-to-market prices at the end of the period.

Benchmark reserves

	$ Millions 2019	$ Millions 2018
Hedged reserves		
VaR as at 31 March	72	107
Unhedged Reserves		
VaR as at 31 March	1,875	2,685

In addition to foreign currency reserves, the government is exposed to foreign exchange risk through the UK's transactions with the **IMF**. The UK's quota subscription and lending to the IMF are both denominated in SDR and are subject to valuation adjustments by the IMF. The UK's liabilities to the IMF, although denominated in sterling, are also subject to valuation adjustments by the IMF.

Investments in financial institutions primarily relates to the value of the UK's capital investment in the European Investment Bank (EIB) of £9.9 billion (2017-18: £9.7 billion) as based on the UK's share of the EIB's net assets in euros. Therefore, the government is exposed to foreign exchange rate risk on the fair value of this equity investment.

[7] An annual Service Level Agreement between the Treasury and the Bank of England, a summary is included in a Treasury report entitled 'Management of the Official Reserves' available at https://www.gov.uk/government/publications/management-of-the-official-reserves.

Price Risk

The government is exposed to price risk on its shareholding in Royal Bank of Scotland (RBS). The fair value of these UK listed shares fluctuates as a result of changes in market prices. Market prices for a share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market. UK Government Investments (a wholly owned subsidiary of HM Treasury) is responsible for the development and execution of an investment strategy for disposing of the investments in RBS in an orderly and active way, within the context of protecting and creating value for the taxpayer.

Note 24. Public sector pensions

Pension liabilities

The public sector pension liabilities are summarised in the following table with figures separated out for each of the workforces. The table also shows the percentage change in the net liabilities between 2017-18 and 2018-19.

	Scheme liabilities	Scheme assets	2018-19 Net liabilities	2017-18 Net liabilities	Change in scheme liabilities
	£bn	£bn	£bn	£bn	%
Unfunded schemes					
NHS	620.1	-	620.1	612.6	1.2
Teachers	411.0	-	411.0	412.9	(0.5)
Civil Service	261.1	-	261.1	260.9	0.1
Armed Forces	195.3	-	195.3	195.5	(0.1)
Police	171.6	-	171.6	161.7	6.1
Royal Mail	44.0	-	44.0	46.4	(5.2)
Fire	31.4	-	31.4	29.2	7.5
Other unfunded	21.6	-	21.6	22.6	(4.4)
	1,756.1	**-**	**1,756.1**	**1,741.8**	**0.8**
Funded schemes					
Local government	387.5	(268.0)	119.5	106.0	12.7
Other funded	100.8	(82.5)	18.3	17.5	4.6
	488.3	**(350.5)**	**137.8**	**123.5**	**11.6**
Total	**2,244.4**	**(350.5)**	**1,893.9**	**1,865.3**	**1.5**

The Local Government Pensions Scheme (LGPS) is the largest funded scheme. The LGPS (England and Wales) consists of 89 separate funds, with the LGPS (Scotland) having 11 main funds and a single fund for the LGPS (Northern Ireland). The individual local authority employers that contributed to these funds recognised their proportion of the scheme liabilities in their statement of accounts. The local government funded schemes balance disclosed above includes the portion of the pension liability of the LGPS that was reported in the financial accounts of the individual local authority employers.

Other unfunded schemes include schemes within the UK Atomic Energy Authority (UKAEA Pension Scheme) £7.5 billion (2017-18: £8.0 billion); and the Research Councils (RCPS) £5.2 billion (2017-18: £5.3 billion).

Other funded schemes comprise largely of net liability balances reported by Academy schools in the Local Government Pension Scheme £6.6 billion (2017-18: £7.0 billion); Department for Transport - including Network Rail £4.9 billion (2017-18: £4.3 billion); Ministry of Justice £2.0 billion (2017-18: £1.6 billion); and BBC £0.5 billion (2017-18: £0.5 billion). It also includes other LGPS net liabilities for bodies within the WGA boundary which are not local authorities.

In addition to updates provided in annual accounts, public sector pension schemes carry out periodic full actuarial valuations which are used to set employer contribution rates. The last actuarial valuations for most of the unfunded pension schemes were carried out as at 31 March 2016, which set the employer contribution rates for a 4-year period from 1 April 2019.

Increase in pension liabilities

The table below breaks down the changes in the present value of gross scheme liabilities over the financial year.

	Unfunded £bn	Funded £bn	Total £bn
Gross liability at 1 April 2018	1,741.8	454.2	2,196.0
Current service costs (net of participants' contribution)	48.4	13.8	62.2
Past service costs	29.4	2.4	31.8
Settlements/curtailments	(0.1)	(0.5)	(0.6)
Interest on scheme liabilities	44.6	11.7	56.3
Contribution by scheme participants	9.6	2.3	11.9
(Gains)/Losses on revaluation:			
Experience (gains) and losses arising on liabilities	(4.3)	3.3	(1.0)
Changes in assumptions underlying the value of liabilities	(70.3)	14.3	(56.0)
Benefits paid	(43.3)	(12.5)	(55.8)
Transfers in/(out)	0.3	(0.7)	(0.4)
Gross liability at 31 March 2019	**1,756.1**	**488.3**	**2,244.4**

Overall, the net public sector pension liability increased by £28.6 billion during the year. This is broken down as follows:

	2018-19 £bn	2017-18 £bn
Net liability at 1 April	1,865.3	1,834.7
Net (gains)/losses on revaluation	(70.0)	(38.6)
Current service costs (net of participants' contributions)	62.2	60.1
Net interest costs	47.5	50.6
Unfunded schemes benefits paid	(43.3)	(41.3)
Past service costs	31.8	1.3
Net settlements/curtailments	(0.2)	(0.3)
Contribution by unfunded scheme participants	9.5	9.3
Contribution by funded scheme employers	(8.9)	(10.3)
Net transfers in/(out)	0.0	(0.2)
Net liability at 31 March	**1,893.9**	**1,865.3**

As summarised in the above tables, the change in the net pension liability is largely dictated by four factors:

- the revaluation gain or loss, which at this year-end reduces the liability as a gain was recognised
- the current service costs which increase the liability
- the net interest costs which increase the liability
- the benefits paid from the unfunded schemes which reduce the liability

For the 2018-19 accounts, past service costs also had a notable impact on the change in net pension liability. This is discussed more below.

This volatility in the **revaluation gain or loss** is predominantly due to the change in assumptions, particularly the discount rate net of inflation and demographic assumptions. The discount rate for central government unfunded schemes is set by HM Treasury and is based on yields of high quality (AA) corporate bonds. The return on corporate bonds is only used to discount the future benefit payments to the present day. Therefore, whilst movement in the assumption has a significant impact on the liability figure in the accounts from year to year, as shown by the sensitivity analysis, it does not influence the level of benefits received by the members.

The key financial assumptions are shown in Note 2.5 and show that, for the central government unfunded schemes, the (net of CPI) discount rate increased from 0.1% in 31 March 2018 to 0.29% in 31 March 2019. The increase in discount rate decreases the present value of liabilities. This actuarial gain from the discount rate is recognised in other comprehensive income rather than against net expenditure. The decrease in liability from the change in discount rate was accompanied by other changes in liability from changes in other assumptions, leading to an overall revaluation gain that reduced the liability.

The table below shows the approximate sensitivity of the unfunded liability to changes in key assumptions. Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability. The sensitivity will be broadly similar for the gross liability of the funded schemes.

	% change in value of unfunded liability	£bn change in unfunded liability
Increasing the assumption by 0.5% a year:		
Discount rate	(12.0%)	(211.0)
Rate of increase in pensions	8.0%	140.0
Rate of increase in Salaries	2.0%	35.0
Increasing assumed life expectancy in retirement by 1 year	3.0%	53.0

The **current service cost** is an estimate made by scheme actuaries of the benefits earned by employees in the year.

The **net interest cost** reflects the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the net liability. The expense from unwinding the discount rate is recognised against net expenditure.

Past service costs reflect changes in the present value of scheme liabilities related to employee service in prior periods that arise in the current period as a result of changes to retirement benefits.

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. On 27 June 2019 the Supreme Court refused the government's application for permission to appeal the ruling.

In respect of public service pensions the government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. This would lead to an increase in pension scheme liabilities. In the 2018-19 accounts, actuaries, have estimated the potential increase in scheme accounting liabilities across the public sector to be £30.5bn. This £30.5bn increase can be seen under the heading Past service costs.

The central government schemes experiencing the largest McCloud impacts were as follows:

• National Health Service Pension Scheme: £7.3 billion representing 1.4% of the overall scheme liability

• Teachers' Pension Scheme (England & Wales): £7.0 billion representing 2.0% of the overall scheme liability.

• Cabinet Office Civil Superannuation: £3.8 billion representing 1.6% of the overall scheme liability

• Armed Forces Retired Pay Pensions: £1.9 billion representing 1.0% of the overall scheme liability.

Pension assets

Funded pension schemes hold the following assets:

	Local government £bn	Other funded £bn	2018-19 Total £bn	2017-18 Total £bn
Equity investments	152.2	29.7	181.9	185.4
Bonds	45.6	26.2	71.8	62.5
Other	70.2	26.6	96.8	82.8
Total market value	**268.0**	**82.5**	**350.5**	**330.7**

The 'other' balance consisted of property, cash and other alternative assets, such as hedge funds and private equity, diversified growth funds, or infrastructure investments, which have varying levels of performance.

Increase in pension assets

The table below breaks down the increase in the fair value of funded scheme assets over the financial year.

	2018-19 £bn	2017-18 £bn
Gross assets at 1 April	330.7	319.2
Interest on scheme assets	8.8	8.2
Actual return less interest on scheme assets	13.1	4.1
Contributions by employers	8.9	10.3
Contributions by scheme participants	2.3	2.2
Benefits paid	(12.5)	(12.1)
Assets distributed on settlements	(0.4)	(0.2)
Transfers in/out	(0.4)	(1.0)
Gross assets at 31 March	**350.5**	**330.7**

Amounts recognised in the financial statements

Amounts recognised in the Statement of Revenue and Expenditure are as follows:

	Unfunded	Funded (net)	2018-19 Total	2017-18 Total
	£bn	£bn	£bn	£bn
Current service cost	48.4	13.8	62.2	60.1
Past service cost	29.4	2.4	31.8	1.3
Settlements/curtailments	(0.1)	(0.2)	(0.3)	(0.4)
Net financing cost	44.6	2.7	47.3	50.7
Total recognised in the Statement of Revenue and Expenditure	**122.3**	**18.7**	**141.0**	**111.7**

Note 25. Capital commitments

Capital commitments are future commitments to capital expenditure that are contracted for but not provided for in the financial statements and in 2018-19 totalled £53.2 billion (2017-18: £54.2 billion).

The most significant capital commitments in 2018-19 include those reported by the Ministry of Defence of £24.4 billion (2017-18: £22.1 billion), Department for Transport of £5.1 billion (2017-18: £5.7 billion), Department for Education (including commitments made by Academies) of £5.3 billion (2017-18: £3.3 billion) and the Scottish government of £3.6 billion (2017-18: £3.4 billion).

The increase in capital commitments reported by the Ministry of Defence reflect contracts with BAE systems to provide and support production and maintenance of nuclear submarines.

Note 26. Commitments under leases

Operating leases

Total future minimum payments under operating leases are given in the table below, analysed according to the period in which the lease expires.

	2018-19 £bn	2017-18 £bn
Obligations under operating leases comprised:		
Total payments within one year	2.8	2.7
Total payments between one and five years	7.1	7.1
Total payments thereafter	11.4	11.2
Total future minimum lease payments under operating leases	**21.3**	**21.0**

The most significant operating lease balances include the Department of Health and Social Care at £3.2 billion (2017-18: £2.8 billion), HMRC at £1.9 billion (2017-18: £1.8 billion), Ministry of Justice at £1.6 billion (2017-18: £1.6 billion), Department for Work and Pensions at £1.4 billion (2017-18: £1.5 billion) and Transport for London at £1.8 billion (2017-18: £1.4 billion).

Finance leases

Total future minimum payments under finance leases are given in the table below, analysed according to the period in which the lease expires.

	2018-19 £bn	2017-18 £bn
Obligations under finance leases comprised:		
Total payments within one year	0.6	0.5
Total payments between one and five years	1.8	1.8
Total payments thereafter	21.3	21.3
Total	**23.7**	**23.6**
Less interest element	(18.3)	(18.5)
Total present value of obligations	**5.4**	**5.1**

The most significant finance lease balance relates to a land and buildings lease for the Ministry of Defence of £1.8 billion for 2018-19 (2017-18: £1.7 billion).

Note 27. Commitments under Private Finance Initiative (PFI) contracts

PFI contracts recognised on the Statement of Financial Position

PFI assets are recognised on the Statement of Financial Position where the government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the asset at the end of the contract.

The net book value of PFI assets included in the Statement of Financial Position was £47.4 billion (2017-18: £45.3 billion) as at 31 March 2019. The PFI liability for the present value of capital amounts payable was £37.9 billion (2017-18: £39.0 billion). The substance of PFI contracts is that they have three elements: repayments of capital and interest (together representing a finance lease liability), and annual service charges.

Details of the underlying finance lease liability are given in the table below:

	2018-19 £bn	2017-18 £bn
Obligations for future periods arise in the following periods:		
No later than one year	4.5	4.5
Later than one year and not later than five years	17.2	17.4
Later than five years	47.7	52.3
Gross present value of future finance lease obligations	**69.4**	**74.2**
Less interest charges allocated to future periods	(30.9)	(34.6)
Net present value of future finance lease obligations	**38.5**	**39.6**

Details of the minimum annual service charge are given in the table below:

	2018-19 £bn	2017-18 £bn
Obligations for future periods arise in the following periods:		
No later than one year	5.2	5.4
Later than one year and not later than five years	19.3	19.7
Later than five years	56.9	61.2
Total annual service charges	**81.4**	**86.3**

The PFI obligations by segment of government were:

	2018-19 £bn	2017-18 £bn
Central government departments and entities within the NHS	39.3	41.3
Local authorities	29.0	31.6
Public corporations	1.1	1.3
Gross present value of future finance lease obligations	**69.4**	**74.2**

The net present value of PFI obligations represents the liability for capital repayments. The most significant balances amount to £10.9 billion (2017-18: £11.2 billion). These are held by the Department of Health and Social Care. The overall liability for capital repayments decreased by £1.1 billion in 2018-19 in line with repayments made in year.

The net present value of PFI obligations is recognised as a liability on the Statement of Financial Position, albeit at £37.9 billion rather than at £38.5 billion as reported above. This is due to differences in recording costs such as contingent rents and lifecycle replacement costs by WGA entities. Interest charges and annual service charges are not recognised as liabilities in the Statement of Financial Position and are disclosed as commitments. These amounts will be recognised in the Statement of Revenue and Expenditure in the year they become due.

Details of the government PFI schemes are published on the gov.uk website.[8]

PFI contracts not recognised on the Statement of Financial Position

During the 2018-19 financial year, some WGA entities had PFI contracts which were not recognised on the Statement of Financial Position. This is because the private sector contractor was, on balance, considered to have greater control over the use of the asset.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership

8 https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2018-summary-data

asset. It concluded that there are none with a significant value that should be included in the 2018-19 WGA that are not already consolidated.

Note 28. Other financial commitments

Commitments from other non-cancellable contracts that are not leases or PFI contracts are as follows:

	2018-19 £bn	2017-18 £bn
Financial commitments expiring in future years:		
No later than one year	20.5	17.9
Later than one year and not later than five years	27.9	23.5
Later than five years	11.4	7.4
Total other financial commitments	**59.8**	**48.8**

Other commitments increased by £11.0 billion from £48.8 billion in 2017-18 to £59.8 billion in 2018-19.

Note 29. Contingent liabilities disclosed under IAS 37

Quantifiable contingent liabilities

Total quantifiable contingent liabilities are as follows:

	2018-19 £bn	2017-18 £bn
Export guarantees and insurance policies	15.7	11.9
Clinical negligence	50.8	47.3
Taxes subject to challenge	2.3	6.0
Transport infrastructure projects	3.5	8.0
Other	7.8	10.5
Total quantifiable contingent liabilities	**80.1**	**83.7**

Individually significant contingent liabilities are detailed below:

Entity	Contingent liability	2018-19 £bn	2017-18 Restated £bn
Department of Health and Social Care	The **Department of Health and Social Care** is the actual or potential defendant in several actions regarding alleged clinical negligence. Part of this liability has been recognised as a provision (see Note 22), and the contingent liability reflects cases where there is a large degree of uncertainty as to the department's liability and amounts involved.	49.3	46.1

UK Export Finance	**UK Export Finance** supports exports and investments through issuing and renewing guarantees and insurance policies. They issue guarantees and insurance against loss for, or on behalf of, exporters of goods and services and overseas investors from the UK. The value is shown net of reinsurance. The gross value before reinsurance is £21.5 billion (2017-18: £17.0 billion).	15.7	11.9
Department for Transport	The **Department for Transport** has a £1.4 billion commitment to fund any shortfall of toll revenue from the Mersey Gateway bridge, £1.2 billion for legal claims relating to Highways England and £0.9 billion of other contingent liabilities. The prior year balance includes £5.1 billion of indemnities for Crossrail. These crystallised in 2018-19 when the department agreed a new funding package for the project, comprising loans of £1.3 billion to the Greater London Authority and a £750 million contingency to be made available to Transport for London.	3.5	8.0
HM Revenue & Customs (HMRC)	**HMRC** is engaged in several legal and other disputes which can result in claims by taxpayers against HMRC. This covers a range of cases, including corporation tax and Value Added Tax (VAT). For 2018-19, HMRC has 6 cases estimated to have a value of £2.3 billion (2017-18: 9 cases estimated at £6.0 billion) where potential tax repayment before losses, capital allowances and other tax reliefs is over £100 million.	2.3	6.0
Department for International Development	The **Department for International Development** holds several contingent liabilities, the largest of which is £1.0 billion (2017-18: £2.9 billion) in respect of contributions to international organisations.	1.7	3.5
HM Treasury	**HM Treasury** holds several contingent liabilities, the largest of which is £1.0 billion of market standard, time and value capped warranties for the sale of Northern Rock Asset Management loans in March 2019.	1.6	0.8
Pension Protection Fund (PPF)	The **Pension Protection Fund** (PPF) steps in to cover pension schemes from companies which are insolvent. The total value of claims on the PPF identified by their actuary as reasonably foreseeable was £1.0 billion for 2018-19. This figure is net of the value of related scheme assets.	1.0	2.8

Non-quantifiable contingent liabilities

Commitments in relation to pension scheme deficits

Non-quantifiable contingent liabilities have arisen as a result of commitments made by several WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded.

Ministry of Defence

The Ministry of Defence has a number of non-quantifiable contingent liabilities which include: third party indemnities for contractors involved in the construction of the Queen Elizabeth aircraft carriers; third party indemnities for damage caused by live missile firing on overseas ranges; potential costs of decontamination work on sites yet to be identified; potential liabilities that arise from in-service mortality rates in excess of those covered by the Service Life Insurance scheme; and losses or claims in relation to the International Ocean Towage Agreement. Further details of these non-quantifiable contingent liabilities can be found in the Ministry of Defence's 2018-19 annual report and accounts.

Legal claims

Non-quantifiable contingent liabilities have arisen as a result of several legal claims, compensation claims, and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Civil nuclear liabilities

The Department for Business, Energy & Industrial Strategy has a range of civil nuclear liabilities arising from the United Kingdom Atomic Energy Authority, British Nuclear Fuels Limited and obligations under international nuclear agreements and treaties.

Note 30. Remote contingent liabilities reported to Parliament

In addition to the contingent liabilities reported in Note 29, government departments additionally disclose contingent liabilities where the risk of the liability crystallising is remote. These remote contingent liabilities are not required to be disclosed under accounting standards but are reported here on the basis that guarantees, indemnities and letters of comfort are a source of financial risk.

Quantifiable remote contingent liabilities

The potential costs of the government's quantifiable remote contingent liabilities are as follows:

	1 April 2018 Restated	Increase/ (decrease) in year	Liabilities crystallised in year	Obligations expired in year	31 March 2019
	£bn	£bn	£bn	£bn	£bn
PPF remote contingent liabilities	210.0	(17.4)	(1.2)	(11.4)	180.0
Guarantees	69.4	0.6	-	(0.1)	69.9
Indemnities	28.1	1.5	-	(5.9)	23.7
Letters of comfort	11.4	12.4	-	-	23.8
Total	**318.9**	**(2.9)**	**(1.2)**	**(17.4)**	**297.4**

Prior year figures have been restated through the inclusion of a remote contingent liability for the Pension Protection Fund (PPF).

Individually significant remote contingent liabilities are detailed below:

Entity	Contingent liability	2018-19 £bn	2017-18 Restated £bn
Pension Protection Fund (PPF)	**Pension Protection Fund (PPF) contingent liabilities** Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2019 is estimated at £180 billion, calculated on the same basis as for the PPF 7800 index. The PPF 7800 Index is an established official statistic which has been published by the PPF since 2007. It indicates the latest estimated funding position for the defined benefit (DB) pension schemes in the PPF's eligible universe.	180.0	210.0
HM Treasury (Consolidated Fund Account)	**Guarantees** The UK is liable for callable capital to the European Investment Bank (EIB). Under Article 5 of the EIB Statute, the Board of Directors may call upon each member state to pay its share of the balance of the subscribed capital should the bank have to meet its obligations.	30.6	31.3
Department for International Development	**Guarantees** Contingent liabilities in respect of callable capital on investments in international financial institutions.	14.5	14.5
HM Treasury (Consolidated Fund Account)	**Guarantees** This represents the UK's maximum liability from current outstanding loans to EU member states and third countries for which the risk is ultimately borne by the EU Budget. Loans are issued under the following initiatives: the European Financial Stabilisation Mechanism; the Balance of Payments Facility; and the Guarantee Fund to Third Countries.	9.9	10.6
HM Treasury (Consolidated Fund Account)	**Guarantees** The Consolidated Fund holds a remote contingent liability for the value of UK coins in circulation.	4.7	4.6
Ministry of Housing, Communities and Local Government	**Guarantees** The department operates a guarantee scheme for the affordable housing sector, the Affordable Homes Guarantee Scheme (AHGS). At the accounting date, £3.2 billion has been drawn down and is covered by the guarantee scheme. The AHGS closed to applicants in March 2016 and the programme is now in the portfolio management and monitoring phase, meaning there will be no new applicants or approvals. Therefore, there will be no further drawing against this scheme.	3.2	3.2
Department for Transport	**Guarantees** Contingent liabilities arise from the signing of new, replacement and extended passenger rail franchise agreements.	1.9	2.0
HM Treasury	**Guarantees** The Asian Infrastructure Investment Bank (AIIB) was set up in December 2015 with the UK as a shareholder (along with many other countries) to support financing for infrastructure projects across Asia. The AIIB would be able to call on the shareholders (including the UK) if the bank was not able to meet its obligations.	1.5	0.3

HM Treasury	**Guarantees** The Help to Buy Scheme was launched to address the shortage of high loan-to-value mortgages. The scheme closed to new loan applications on 31 December 2016. A portion of the liability would crystallise if the following events occurred: 1) a borrower defaults on their mortgage 2) the sale proceeds from property are less than the outstanding principal and interest repayments owing; and 3) the lender makes a claim to HM Treasury for the difference. During the life of the scheme there have been 11 successful claims totalling £120,000.	1.4	1.4
HM Treasury	**Guarantees** The UK Guarantee scheme was set up to support infrastructure projects that may have stalled due to adverse credit conditions.	1.0	1.0
Department for Transport	**Indemnities** In 2012 the Secretary of State at the Department for Transport agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the Inter City Express Rolling Stock contracts with Agility Consortium and Network Rail.	6.0	5.9
Department for Transport	**Indemnities** The High Speed 1 (HS1) concession agreement specifies that compensation will be paid if the contract were terminated due to legal or governmental changes.	4.8	4.5
Department for Transport	**Indemnities** To support the Thameslink programme there are a series of assurances, warranties, indemnities and potential losses.	1.0	1.2
HM Treasury	**Letters of comfort** To facilitate each sale of UK Asset Resolution (UKAR's) Bradford and Bingley (B&B) and Northern Rock Asset Management (NRAM) assets, HM Treasury has offered certain market standard warranties that have created remote contingent liabilities. The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the warranties. Given their nature, such occurrence is considered remote. The value has increased in 2018-19 due to many sales during the year.	23.8	11.4
Department for Digital, Culture, Media and Sport	**Letters of comfort** The Government Indemnity Scheme indemnifies lenders to museums, galleries and other institutions when mounting exhibitions or taking long-term loans for study or display. This figure also includes non-statutory indemnities granted in respect of art on loan from the Royal Collection.	8.5	12.2
Ministry of Defence	**Letters of comfort** Under contract terms the Ministry of Defence may indemnify or limit a contractor's liability in relation to a specific area. These include damage to government property, damage to issued property, default, deferment, termination and indirect and consequential losses. This value covers the potential value relating to damage caused on government property.	1.6	2.0

Non-quantifiable remote contingent liabilities

Remote contingent liabilities can also be unquantifiable. The most significant liabilities are detailed below:

Notification to leave the EU – Article 50

On 29 March 2017 the UK government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a negotiation process between the UK and the EU, during which the UK remains a full member of the EU with all the rights and obligations arising from membership.
The negotiations are ongoing and as such have not given rise to any legal or constructive obligation for any components of the Whole of Government Accounts 2018-19. Further information on the EU withdrawal can be found in Chapter 1.

There are a number of unquantifiable remote contingent liabilities disclosed in the individual 2018-19 annual reports and accounts of central government bodies reflecting the remote possibility at the reporting date that they may be required to settle any liabilities arising from changes in legislation, regulation and funding arrangements resulting from EU exit on behalf of the UK government.

Further information on events subsequent to 31 March 2019 in relation to EU exit can be found in Note 32. The impact of these events is not reflected in the 2018-19 WGA, as the UK remained a member of the EU during the 2018-19 financial year.

Regional development banks and funds

The Department for International Development has entered into non-quantifiable contingent liabilities relating to the maintenance of the value of subscriptions paid to the capital stock of regional development banks and funds, such as the African and Asian Development Banks.

National Health Service

The Department of Health and Social Care has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There were 19 unquantifiable indemnities. None of these are a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Nuclear matter

Indemnities have been given to UK Atomic Energy Authority (UKAEA) by the Department for Business, Energy and Industrial Strategy to cover indemnities given to carriers against certain claims for damage caused by nuclear matter in the course of carriage.

Decommissioning offshore installations

Under the United Nations Convention on the Law of the Sea (UNCLOS) 1982, OSPAR decision 98/3, the Energy Act 2004 and the Petroleum Act 1998, the government would become responsible for decommissioning most oil, gas and renewable energy installations in the event that operators are unable to fulfil their decommissioning commitments.

Hinkley Point C

A remote contingent liability provides protections in certain scenarios where the Hinkley Point C nuclear plant is shut down for reasons that are political or certain changes in law and insurance contracts.

UK Space Agency

UK Space Agency has an unquantifiable contingent liability arising from the international United Nations convention which requires the UK government to be ultimately liable for third party costs from accidental damage arising from UK space agencies.

Student loans sale

Each sale of student loans necessitated separate but similar warranties and indemnities to secure interest and obtain value for money from investors into the securitisation transactions. Further details can be found in the accounts of the Department for Education.

Department of Transport

The Department of Transport is party to a North Atlantic Treaty Organisation (NATO) agreement relating to indemnification of civil aircraft in respect of their use on NATO tasks in times of crisis and war.

The department has a statutory responsibility for the maintenance of all railway structures. The contingent liability for this responsibility applies to structures that have been sold to, and are controlled by, third parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

Ministry of Defence

Indemnities have been provided to several companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965.

British Telecom (BT) pension scheme

When BT was privatised in 1984, the government gave a guarantee (contained in the Telecommunications Act 1984) in respect of certain liabilities of the privatised company. Following High Court and Court of Appeal proceedings on the terms and scope of the Crown Guarantee, which would only apply if BT were to enter insolvent winding-up, the contingent liability is approximately the size of the BT pension scheme (BTPS) deficit. The last triennial actuarial valuation of the pension scheme as at 30 June 2017 valued the deficit at £11.3 billion. BT has decided to close the BTPS for future accruals of benefit from 1 June 2018, as a result the liabilities covered by the Crown guarantee will be limited to those relating to benefits accrued before that date (together with indexing and any legally required increments). These liabilities remain with BT plc and so legislation is no longer required on the scope of the guarantee. The contingent liability largely consists of the considerable deficit on the BTPS fund, however providing BT takes steps to reduce that, possible growth in the liability should now be limited.

Underwriting the Commonwealth Games

The UK government was successful in its bid for the 2022 Commonwealth Games. As part of the successful bid to host the Games, the Department for Digital, Culture, Media and Sport has taken on a contingent liability by guaranteeing to financially underwrite the organisation and staging of the Games

Contingent liabilities for reinsurance arising from acts of terrorism

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies owned by insurers. They provide insurance cover to industrial and commercial property and nuclear facilities for damage and consequent business interruption arising from terrorist attacks in Great Britain. HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. These arrangements are set out in the Reinsurance (Acts of Terrorism) Act 1993. Maximum potential liabilities under this arrangement are considered unquantifiable.

Note 31. Related party transactions

Related parties in the context of WGA are public sector entities that have not been consolidated into the 2018-19 WGA. Further information regarding non-consolidated entities can be found in Annex 2 and Annex 3 to the account.

The most significant WGA related party is the Royal Bank of Scotland Group plc. In the course of normal business, WGA entities entered into arms-length banking transactions with this institution, including loans, deposits, reimbursement of related expenses, payment of management fees, interest receipts and dividends. The volume and diversity of these transactions make comprehensive disclosure impractical.

Due to the nature of HM Revenue and Customs' business, it had many transactions relating to taxation income with other public sector entities not within the WGA boundary.

Local government entities had transactions with municipal ports, airports and parish councils, primarily through the provision of funding. They also had transactions with local government pension schemes and record their share of the scheme's assets and liabilities in their accounts. Further details are available in the 2018-19 accounts of the individual entities.

The Department for Education, through the Education and Skills Funding Agency, and local authorities, provided funding to further education colleges in England and Wales for research and provision of further education courses. Through the Office for Students, it provided funding for higher education courses.

The Department for Business, Energy and Industrial Strategy, through UK Research and Innovation, provided funding for science and research to universities and research organisations.

Note 32. Events after the reporting period

The following events that have occurred after the reporting period have been identified as significant to WGA. The Government Financial Reporting Manual (the FReM) modifies financial reporting requirements for the purposes of WGA in that the requirement that the financial statements be adjusted for significant transactions, or events that occur between the date of the consolidated entity's reporting date and the WGA reporting date, do not apply, and therefore all such events are non-adjusting.

EU Exit

The European Union (Withdrawal Agreement) Act 2020 received Royal Assent on 23 January 2020. Liabilities as a result of the Withdrawal Agreement are recognised at this point. As this was after 31 March 2019, it is considered an event after the reporting period for 2018-19. The financial position as at 31 March 2019 has not been adjusted for this information. An estimate of the financial impact of this event is set out below.

Scope of the financial settlement

The financial settlement addresses mutual obligations that arose primarily as a consequence of the UK's participation in the EU budget, and commitments related to the UK's broader membership of the EU. It does not cover the costs of facilitating withdrawal or new administrative arrangements that may result from the UK's exit. There is also no obligation in the financial settlement to pay for the relocation of EU bodies previously located in the UK.

The financial settlement does not cover costs that might be associated with the UK's future relationship with the EU. The government has been clear throughout this period that there are some specific European programmes in which the UK may want to participate. If so, and this will be for the UK to decide, it is reasonable that an appropriate contribution should be made. These decisions are subject to negotiations on our future relationship with the EU, and future decisions of Parliament.

The financial settlement has three main components:

- First, the UK will continue to participate in EU annual budgets to 31 December 2020. This means that the UK will continue to make its contribution and get receipts from EU budget programmes under the normal rules. The financial impact of this will be reflected as an in year cost in the 2019-20 and 2020-21 accounts of the Consolidated Fund, departments administering certain EU programme receipts and WGA, and are not reflected in the figures in the table below.
- Second, the UK will then pay its share of the EU's outstanding commitments at the end of 2020 (the so-called RAL- 'reste à liquider') and again will benefit from some of these commitments.
- Third, the UK will pay a share of the EU's liabilities as at the end of 2020, and any materialising contingent liabilities, and in return will benefit from a share of relevant EU assets. This includes eligible pension liabilities. These are shown in the 'pensions', 'EIB paid in capital' and 'other' lines in the table below.

Valuation of the financial settlement

An estimate of the assets and liabilities that would be recognised in the accounts of HM Treasury and also of those disclosed in the Consolidated Fund in respect of the EIB as a result of the financial settlement, as at 31 March 2020, is provided in the table below. This only includes those elements of the financial settlement that are recognised under applicable accounting standards and therefore, for example, the first element (contributions and receipts from the 2020 EU Budget) are not included. A fuller presentation of all elements of the financial settlement can be found in European Union Finances, published by HM Treasury.[6]

Valuation of the financial settlement as at 31 March 2020

Element	Asset (£bn)	Liability (£bn)	Maturity profile
RAL	-	(30.3)	To 2027-28
Pensions	-	(8.2)	Various
EIB paid in capital	2.5	-	To 2031-32
Other	0.2	-	To 2022-23
Total (net)		**(35.8)**	

Source: HM Treasury

The UK's shareholding in the EIB is recognised as a financial asset with a value of £9.9 billion in WGA 2018-19. The figure of £2.5 billion represents the return of the UK's paid-in capital in the EIB (€3.5 billion undiscounted). 2018-19 values in WGA have not been restated.

Remote contingent liabilities relating to the UK's callable capital commitment from membership of the European Investment Bank (EIB) are valued at £31.6bn (as at 31st March 2020). This commitment was previously disclosed in 2017-18 WGA. In addition, the UK will maintain a contingent liability in respect of the returned paid in capital, which will wind down in relation to the amortisation of EIB operations approved before withdrawal. Remote contingent liabilities to the EU Budget in Note 30 of WGA are treated in combination with the UK's share of the associated pre-paid guarantee funds in accordance with the terms of the Withdrawal Agreement, which in some cases gives rise to contingent assets. Contingent assets and liabilities are not included in the table above.

The financial provisions of the Withdrawal Agreement also include other elements that will be recognised as expenditure and income in WGA in future reporting periods. For example, UK participation in EU annual budgets to 2020 do not give rise to material assets or liabilities. UK contributions and public sector receipts from EU programmes accrue in the year to which they relate. Further information on the financial effects arising from the financial provisions of the Withdrawal Agreement can be found in the European Union Finances, published by HM Treasury.[9]

Sensitivities and assumptions

These assets and liabilities represent payments and receipts to be recognised several years into the future. There are a number of key sensitivities and assumptions which may affect future valuations.

The asset and liability valuations are sensitive to changes in the discount rates applied under the applicable accounting standards. The obligations of the financial settlement are principally denominated in Euros and therefore the sterling valuations are sensitive to changes in the Sterling/Euro exchange rate. The

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

accounting valuations for the pension related liabilities are sensitive to actuarial assumptions (e.g. life expectancy, inflation) for defined benefit pension obligations. The value of the RAL is also sensitive to the level of implementation of EU Budget commitments (not all commitments necessarily translate into payments). All the items disclosed in the table above, with the exception of those in relation to the EIB, are sensitive to the UK's financing share (the average proportion of the EU Budget that the UK has financed over the 2014-20 period). The key sensitivities are set out in the table below.

Key Sensitivities

Sensitivity component	Assumption Change	Degree of Uncertainty	Sensitivity to Changes	Financial Impact (£bn)	Further Commentary
Financing Share-the average proportion of the EU Budget over 14-20 financed by the UK	The UK's Financing Share on Post-2020 obligations increases by 1%[a] from the current forecast	Low	Moderate	0.4	The UK's Post-2020 Financing Share is an average of its Own Resources share as a contributor to the EU budget for the years 2014-20. At the time of reporting only the final 2020 Financing Share has yet to be determined. This means the remaining uncertainty around this assumption is limited. Changes to the Post-2020 Financing Share effect the value of all provision liabilities (RAL and Pension)
Exchange Rate – Sterling/Euro exchange rate	The effect of a 1% depreciation/ appreciation of Sterling against the Euro	High	Moderate	0.4	A depreciation of Sterling against the Euro results in the value of the provision liability (RAL, Pension) increasing. An appreciation of Sterling has the opposite effect. This models a 1% depreciation/appreciated from the 31st March 2020 exchange rate.
Decommitments – the proportion of EU budgetary commitments in the RAL that are not implemented	The proportion of RAL that is estimated to be decommitted changes by 1% in absolute terms.	Moderate	Moderate	0.3	A decrease in decommitments increases the value of the RAL liability. An increase in decommitments will have the opposite effect.
Discount Rate – the discount rate applied to future	The effect of a 0.1% decrease in the discount rate	Moderate	Moderate	0.3	Provisions are discounted in accordance with the requirements of the Financial

cash flows to take account of the time value of money	applied to provision liabilities (principally RAL and Pension)		reporting Manual and the rates set centrally by HM Treasury. The 0.1% decrease is applied to each of the spot rates set for different time horizons. Changes to this discount rate do not affect what the UK pays under the financial settlement, only the valuation of the liability for financial reporting purposes.

Source: HM Treasury

a This is equivalent to an increase in absolute terms of over 0.1% in terms of the UK's share of EU obligations. For further explanation of the UK's financing share of the EU budget, see European Union Finances, published by the HM Treasury.

Sales to the private sector

During March 2019, Northern Rock Asset Management Ltd (NRAM), part of UK Asset Resolution Limited (UKAR), confirmed that it has agreed to sell two separate portfolios of residential owner-occupied mortgages and unsecured loans to Citi for a total of £4.9 billion. The final payment of £4.5bn was received after year end.

Windrush Compensation Scheme

On 3 April 2019, the Home Secretary announced details of the Windrush Compensation Scheme, which builds on the measures already introduced by the government to right the wrongs experienced by members of the Windrush generation. The compensation scheme means that Commonwealth citizens settled in the UK before 1973, along with certain of their children and grandchildren, are eligible to apply if they consider that they have losses to claim for. Other eligible groups include those of any nationality who have a right of abode, or settled status, or are now British citizens, who arrived to live in the UK before 31 December 1988.

Transfer from Local Government to Central Government

On 15 July 2019 the government (specifically the Ministry of Housing, Communities and Local Government – MHCLG) took ownership of the Grenfell Tower site until its long-term future has been determined by the community.

Abolishment of Central Government Department

The Department for Exiting the European Union (DExEU) was abolished on 31 January 2020. It was responsible for overseeing negotiations to leave the EU. Those of its functions which are still required have been transferred to the relevant government departments. The administration of the closure of DExEU is being carried out by the Cabinet Office.

Merger of Central Government Departments

On 16 June 2020 the Prime Minister announced that the Department for International Development (DFID) and the Foreign and Commonwealth Office (FCO) will merge, uniting development and diplomacy in one new department that brings together Britain's international effort.

Work will begin immediately on the merger. The new Department will be called the Foreign, Commonwealth and Development Office – it will be established in early September 2020 and will be led by the Foreign Secretary.

Ministry of Defence review of Financial Commitments Disclosures

The Ministry of Defence (MOD) are undertaking an ongoing review of their other commitments disclosure, and audited figures are unlikely to be available until much closer to the laying of the MOD 2019-20 accounts. Current estimates indicate figures of approximately £10.9 billion, an increase of £5.6 billion.

Bank of England Asset Purchase Facility Fund Limited

At its special meeting on 19 March 2020 the Monetary Policy Commitee voted to approve the proposition that the Bank of England should, as soon as was operationally possible and consistent with improved market functioning, increase the stock of asset purchases, financed by the issuance of central bank reserves, by £200 billion to a total of £645 billion. The company began purchases on 25 March 2020.

COVID-19 Pandemic

The government has implemented a number of measures to support the economy, business, individuals, and vital public services through the COVID-19 pandemic. Some of these will be reflected in the 2019-20 annual accounts of the relevant organisations, as they were announced prior to 31 March 2020 or create liabilities on entities' statements of financial position. Other announced support measures will not be fully recognised until the 2020-21 accounts, as they came into effect after 31 Match 2020, or relate to ongoing spending that will not be fully recognised in the 2019-20 accounts.

The main announced measures, and their financial impact, are set out below.

Support for business

On 11 March 2020 the government announced that employers with fewer than 250 employees will be eligible for a rebate of up to two weeks of Statutory Sick Pay (SSP) per employee who has COVID-19 or is self-isolating.

On 11 March 2020 the government announced the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund Schemes to support small businesses and businesses in the retail, hospitality and leisure sectors with grants of either £10,000 or £25,000 per business, the amount to depend on published eligibility criteria.

On 11 March 2020 the government announced the Coronavirus Business Interruption Loan Scheme (CBILS) under which the government will assist small and medium-sized businesses to obtain loan finance up to a maximum of £5 million by providing guarantees to lenders for 80% of the amount lent, and government payments to cover lender-levied charges and the first twelve months of interest charges.

On 17 March 2020 the government announced that eligible businesses would pay no business rates for 12 months from 1 April 2020.

On 17 March 2020 the government announced that businesses eligible for Small Business Rates Relief or Rural Rates Relief will receive a £10,000 grant. In addition, business properties used for retail, hospitality, or leisure purposes will receive a £10,000 grant if their rateable value is £15,000 or under, and a £25,000 grant if their rateable value is between £15,000 and £51,000.

On 17 March 2020 the government announced the COVID-19 Corporate Financing Facility. This will provide support for business by buying short term corporate debt from larger companies. This will give them access to liquidity during the period of disruption caused by the COVID-19 pandemic.

On 20 March 2020 the government announced that UK VAT registered businesses which have a VAT payment due between 20 March 2020 and 30 June 2020, have the option to defer the payment until a later date or pay the VAT due as normal.

On 3 April 2020 the government announced the Coronavirus Large Business Interruption Loan Scheme under which the government will assist larger businesses to obtain loan finance up to a maximum of £50 million by providing guarantees to lenders for 80% of the amount lent.

On 20 April 2020 the government announced the Future Fund to make government loans from £125,000 to £5 million available to UK based companies that drive innovation and development, subject to match funding from private investors, and to accelerate and increase existing financing arrangements for companies.

On 27 April 2020 the government announced the Bounce Back Loan Scheme under which the government will assist small and medium-sized businesses to obtain loan finance up to a maximum of £50,000 by providing guarantees to lenders for 100% of the amount lent, government payments to cover lender-levied charges and the first twelve months of interest charges, during which time repayments will not be required, and by working with lenders to agree low rates of interest for loan terms after twelve months.

On 1 May 2020 the Government announced the Local Authority Discretionary Grants Fund. The additional fund is aimed at small businesses who were not eligible for the Small Business Grant Fund or the Retail, Leisure and Hospitality Fund. Local authorities will have discretion to pay grants of £25,000, £10,000 or any amount below £10,000 per business.

On 4 June 2020 the government announced the Trade Credit Reinsurance scheme backed by a £10 billion guarantee. This will provide cover to hundreds of thousands of business to business transactions.

On 5 July 2020 the government announced a £1.57 billion support package to protect cultural and heritage organisations. The money, which represents the biggest ever one-off investment in UK culture, will provide a lifeline to vital cultural and heritage organisations across the country hit hard by the pandemic.

On 8 July 2020 the government announced a support package, which had the following measures for businesses:

- New Jobs Retention Bonus was introduced to help firms keep furloughed workers in employment. UK Employers are due to receive a one-off bonus of £1,000 for each furloughed employee who is still employed as of 31 January 2021. At the time of the speech, there were 9 billion furloughed workers. The government have allocated up to £9.4 billion to this scheme.

- Kick Start Scheme is available for those aged 16-24, claiming Universal Credit and at risk of long-term unemployment. Funding will be available for each six-month job placement and will cover 100% of the National Minimum Wage for 25 hours a week – and employers will be able to top this wage up. The government allocated up to £2.1 billion for the scheme.

- New Apprenticeships – is an activity included in a £1.6 billion employment support scheme: boosting worksearch, skills and apprenticeships. Businesses will be given £2,000 for each new apprentice they hire under the age of 25. Plus, a new bonus of £1,500 for businesses who hire apprentices over the age of 25.

- VAT will be reduced from 20% to 5% for businesses in the hospitality and tourism sector.

- Eat Out to Help Out is a discount scheme to provide a 50% reduction for sit-down meals in cafes, restaurants and pubs across the UK from Monday to Wednesday every week throughout August 2020.

Support for individuals

On 4 March 2020 the existing Statutory Sick Pay (SSP) scheme was extended to be the Coronavirus Statutory Sick Pay (SSP) Rebate Scheme. This is now payable from day 1 of sickness absence (it had been payable from day 4 in the past).

On 11 March 2020 changes to the existing Universal Credit (UC) regime were announced. This included relaxing requirements to be eligible for UC and removal of the 7 waiting days for contributory Employment and Support Allowance for COVID-19 and self-isolator cases. Increases in the housing element of Universal Credit and housing benefit, and an increase in standard allowances were announced on 20 March 2020.

On 20 March 2020 the Coronavirus Job Retention Scheme (CJRS) was announced by the government. This allows employers to furlough their employees. The government will pay the employer a cash grant of up to 80% of the employees' wages (up to a maximum of £2,500 a month), providing they keep the worker employed.

On 26 March 2020 the Self-Employed Income Support Scheme (SEISS) was announced by the government. This provides grants to individuals who are self-employed or members of a partnership. This grant provides up to 80% of their trading profits/partnership trading profits (averaged from 2016-17, 2017-18 and 2018-19 tax years where applicable), up to a maximum of £2,500 a month.

On 31 March 2020, the government announced a voucher scheme for schools providing free school meals. Weekly shopping vouchers worth £15 to spend at supermarkets while schools are closed due to COVID-19. On the 25 June 2020, guidance was published on the COVID Summer Food Fund. Providing vouchers for eligible pupils in the summer holiday period.

On 28 April 2020, the Secretary of State for Health announced that staff who are performing vital frontline NHS or social care work during the Coronavirus (COVID-19) outbreak may be eligible for a life assurance scheme, £60,000 per family.

On 29 May 2020, the Chancellor announced eligible individuals for SEISS will be able to claim a second and final taxable grant when the scheme reopens for applications in August. Individuals will be able to claim a taxable grant worth 70% of their average monthly trading profits, paid out in another single instalment covering three months' worth of profits, and capped at £6,570 in total.

From 1 July 2020, employers can bring back to work employees that have been furloughed for any amount of time and any shift pattern, while still being able to claim Coronavirus Job Retention Scheme (CJRS) grant for the hours not worked. In June and July 2020, the government will pay 80% of wages up to a cap of £2,500 as well as employer National Insurance (ER NICs) and pension contributions for the hours the employee doesn't work. Employers will have to pay employees for the hours they work.

On 8 July 2020, the government announce a support package which had the following measures for individuals:

- The Green Homes Grant Scheme will pay for green improvements such as loft, wall and floor insulation. From September homeowners and landlords, can apply for vouchers – covering 2/3 of cost up to £5,000. For low income households cover 100% up to £10,000. The government have allocated £2.0 billion to the scheme.

- Stamp duty holiday, a temporary increase to the Nil Rate Band of Residential SDLT (Stamp Duty) from £125,000 to £500,000 until 31 March 2021. The government estimate costs to be £3.8 billion.

In August, the government will pay 80% of wages up to a cap of £2,500 and employers will pay ER NICs and pension contributions for the hours the employee does not work - 5% of average gross employment costs.

From August 2020, the level of the grant will be slowly tapered to reflect that people will be returning to work.

In September, the government will pay 70% of wages up to a cap of £2,187.50 for the hours the employee does not work. Employers will pay ER NICs and pension contributions and 10% of wages to make up 80% total up to a cap of £2,500.

In October, the government will pay 60% of wages up to a cap of £1,875 for the hours the employee does not work. Employers will pay ER NICs and pension contributions and 20% of wages to make up 80% total up to a cap of £2,500.

Support for public services

Budget 2020 announced £5 billion contingency funding for the NHS and other public services. On 13 April 2020 this was increased to £14.5 billion, and was further increased to over £16 billion on 27 April 2020. This will be used to support public services, including the NHS and local authorities.

On 8 July 2020 the government announced a £160 billion support package, £49 billion extra funding for public services.

The Department for Health and Social Care (DHSC) put in place a plan to source the required equipment and resources necessary to tackle the pandemic. The plan incurs a significant increase in expenditure which will be reflected in the 2020 -21 accounts.

It is currently not possible to estimate the financial impact of these measures. This is because they are either demand led, or dependant on the spread of COVID-19 or its secondary impacts on the economy.

Note 33. Prior period adjustments

There are several restatements in WGA, largely relating to presenting prior year figures differently to allow for consistent comparatives with current year figures. There is also a restatement processed in 2017-18 relating to valuation changes in the Academies sector.

The Academic Year 2016-17 Academies Sector Annual Report and Accounts (SARA) that feeds into the 2017-18 WGA was qualified on the basis of the valuation of land and buildings. However, the closing balance for academy land and buildings was considered materially true and fair.

The exercise to evaluate land and buildings valuations led to a one-off charge of £8.4 billion in the 2017-18 WGA, disclosed as other expenditure. For the 2017-18 SARA (which feeds into the 2018-19 WGA), the Department for Education undertook an exercise to identify which elements of this charge related to years prior to 2016-17. This has led to the removal of the one-off charge to other expenditure, and adjustments to reserves and PPE. Only prior year reserves figures have been restated, as although there are restatements to PPE these do not affect the closing balances as at 31 March 2018.

A summary of the adjustments to WGA is provided below. To improve clarity of presentation, losses on disposals of assets (£3.6 billion in 2017-18) have been moved from other revenue to purchase of goods, services and other expenditure.

Statement of Revenue and Expenditure

For the year ended 31 March 2018

	Note	2017-18 £bn	Restatement – Loss on asset disposal £bn	Restatement – Academies £bn	2017-18 Restated £bn
Taxation revenue	4	(661.6)			(661.6)
Other revenue	5	(99.3)	(3.6)		(102.9)
Total public services revenue		(760.9)	(3.6)		(764.5)
Social security benefits	6	225.9			225.9
Staff costs	7	215.8			215.8
Purchase of goods, services and other expenditure	8	212.2	3.6	(8.4)	207.4
Grants and subsidies	9	51.2			51.2
Depreciation and impairment	10	57.7		(1.2)	56.5
Interest costs on government borrowing	11	36.8			36.8
Increase in provisions	22	15.2			15.2
Total expenditure on public services		814.8	3.6	(9.6)	808.8
Net expenditure on public services		53.9		(9.6)	44.3
Financing costs of long-term liabilities, including discounting	11	153.7			153.7
Revaluation of financial assets and liabilities		4.8			4.8
Net expenditure for the year		212.4		(9.6)	202.8

Statement of Comprehensive Income and Expenditure
For the year ended 31 March 2018

	2017-18 £bn	Restatement £bn	2017-18 Restated £bn
Net expenditure for the year	212.4	(9.6)	202.8
Other comprehensive income and expenditure:			
Net (gain)/loss on:			
Revaluation of property, plant and equipment	(37.4)	1.3	(36.1)
Revaluation of intangible assets	(0.7)		(0.7)
Revaluation of assets measured at Fair Value through Other Comprehensive Income	(1.0)		(1.0)
Revaluation of pension scheme liabilities	(38.6)		(38.6)
Other comprehensive income and expenditure	(77.7)	1.3	(76.4)
Total comprehensive expenditure for the year	134.7	(8.3)	126.4

Statement of Financial Position (excerpt)
As at 31 March 2018

	2017-18 £bn	Restatement £bn	2017-18 Restated £bn
Net liabilities	(2,565.4)		(2,565.4)
Financed by taxpayers' equity:			
General reserve	(3,131.5)	(2.5)	(3,134.0)
Revaluation reserve	562.0	2.5	564.5
Other reserves	4.1		4.1
Total liabilities to be funded by future revenues	(2,565.4)		(2,565.4)

Statement of Changes in Taxpayers Equity (excerpt) As at 31 March 2018

	General reserve 2017-18 £bn	Revaluation reserve 2017-18 £bn	General reserve restatement £bn	Revaluation reserve restatement £bn	General reserve Restated 2017-18 £bn	Revaluation reserve Restated 2017-18 £bn
Balance at 31 March 2017	**(2,948.1)**	**482.4**	**(7.5)**	**(0.8)**	**(2,955.6)**	**481.6**
Net expenditure for the year ended 31 March 2018	(212.4)	-	9.6		(202.8)	-
Net gain/(loss) on:						
Revaluation of property, plant and equipment	-	37.4		(1.3)	-	36.1
Revaluation of intangible assets	-	0.7			-	0.7
Revaluation of assets measured at Fair Value Through Other Comprehensive Income	-	1.0			-	1.0
Revaluation of pension scheme liabilities	38.6	-			38.6	-
Other reserves movements including transfers	(9.6)	40.5	(4.6)	4.6	(14.2)	45.1
Balance at 31 March 2018	**(3,131.5)**	**562.0**	**(2.5)**	**2.5**	**(3,134.0)**	**564.5**

Statement of Cash Flows (excerpt) For the year ended 31 March 2018

	2017-18 £bn	Restatement £bn	2017-18 Restated £bn
Cash flows from operating activities			
Net operating expenditure	(53.9)	9.6	(44.3)
Adjustments for non-cash transactions	151.2	(9.6)	141.6
Adjustment for non-operating transactions	32.3		32.3
(increase)/ decrease in inventories	(0.6)		(0.6)
(increase)/decrease in trade and other receivables	(7.5)		(7.5)
Increase/(decrease) in trade and other payables	5.5		5.5
Net cash movement for the provision of pensions	(41.5)		(41.5)
Use of provisions	(10.1)		(10.1)
Net cash inflow/(outflow) from operating activities	75.4		75.4

Note 34. Date authorised for issue

The financial statements were authorised for issue on the date of the Comptroller & Auditor General's report.

Chapter 5

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

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

Qualified opinion on financial statements

I certify that I have audited the financial statements of the Whole of Government Accounts (the WGA) for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the consolidated Statements of Revenue and Expenditure; Comprehensive Income and Expenditure; Financial Position; Cash Flows; Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion, except for the effects of the matters described in the basis for qualified opinion on financial statements paragraph:

- the financial statements give a true and fair view of the state of the whole of government's affairs as at 31 March 2019 and of its net 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.

Basis for qualified opinion on financial statements

Qualification arising from disagreements on the definition and application of the accounting boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the accounts should present a true and fair view and conform to generally accepted accounting practice, subject to such adaptations as are necessary. HM Treasury has adopted a framework for the accounts which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.3 to the accounts, HM Treasury defines the accounting boundary with reference to those bodies classified as being in the public sector by the Office for National Statistics. I consider that it would be more appropriate to assess the accounting boundary with reference to the accounting standards.

I also consider that HM Treasury's accounting policy has not been applied consistently in 2018-19. A number of significant bodies, including the Royal Bank of Scotland, have not been included in the accounts, even though they are classified by the Office for National Statistics as being in the public sector, which I also consider should be included in the accounts in line with applicable accounting standards.

Although I cannot quantify the effect of these omissions on the accounts with certainty, as I do not have the information needed to identify the transactions that would have to be eliminated to provide a consolidated view, the most significant impact would be on the Statement of Financial Position. The exclusion of the following categories of bodies could affect this Statement, which illustrates the potential impact:

- Royal Bank of Scotland which, as at 31 December 2018, had gross assets of £694.2 billion and gross liabilities of £647.7 billion; and

- other bodies which have estimated gross assets of £26.1 billion and gross liabilities of £11.2 billion.

Qualification arising from a disagreement relating to inconsistent application of accounting policies

A number of bodies consolidated in the WGA do not adopt the same framework under which the WGA accounts are prepared. These bodies fall under the following categories:

- bodies in the local government sector follow the Code of Practice on Local Authority Accounting in the UK;
- bodies that follow either pure IFRS or UK GAAP; and
- bodies that follow the Charities Statement of Recommended Practice.

Accounting standards require that, where the effect of such inconsistent accounting policies is material, adjustments should be made on consolidation. HM Treasury has not provided a full analysis of these differences and has not been able to quantify fully the impact of the different accounting frameworks or accounting policies on the WGA, but it is material in some areas. The most significant example of the use of different accounting policies is where assets included in the WGA are not valued on a consistent basis, for example infrastructure assets held by local authorities. In 2018-19 we estimate the value of this impact to be at least £58.8 billion (£47.8 billion in 2017-18).

Qualification arising from underlying statutory audits of bodies falling within the accounts

The external auditors of the financial statements of a number of bodies that are consolidated into the WGA accounts qualified their audit opinion. Of these, only one is materially significant to the WGA, arising from qualification of the accounts of the Ministry of Defence.

The Ministry of Defence has not undertaken sufficient work to enable compliance with the financial reporting framework and to account for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17 ‘Leases’. Consequently, I have concluded that the Ministry of Defence has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2019 and for the relevant comparative figures. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not obtained the records or information required to comply with International Financial Reporting Standards in this respect.

Qualification arising from disagreement relating to the consolidation of components with non-coterminous year ends

International Financial Reporting Standard 10 ‘Consolidated financial statements’ (IFRS 10) presumes that, in order to present a true and fair view, the accounting reference date for component bodies consolidated into group accounts should be no more than three months different from the date of the group accounts. Where the accounting reference date is different, IFRS 10 requires that component bodies should prepare, for consolidation purposes, additional financial information as at the same date as the group accounts;

The most recent Academies Sector Annual Report and Accounts (SARA) were prepared by the Department for Education for the year to 31 August 2018. This represents a difference of seven months compared to the accounting reference date of 31 March 2019 for the WGA accounts. In preparing the WGA accounts, HM Treasury has consolidated the SARA for the year to 31 August 2018.

HM Treasury has not complied with the requirements of IFRS 10 in consolidating the SARA. In my view the extent of non-compliance has resulted in a level of misstatement and uncertainty which I consider to be material to the WGA and I have, therefore, qualified my opinion in that respect.

My report includes more details of the matters leading to my qualified opinion.

Emphasis of matter – nuclear decommissioning provisions and Hinkley Point C Contract for Difference (CfD)

Without qualifying my opinion further, I draw attention to the disclosures made in Notes 2.6 and 22 to the accounts concerning the uncertainties inherent in the provisions relating to the costs of dealing with nuclear decommissioning liabilities. As set out in these notes, given the complexity and the very long timescales involved, a considerable degree of uncertainty remains over the value of the liabilities. Significant changes to the liabilities could occur as a result of subsequent information and events which are different from the current assumptions adopted.

I also draw attention to the disclosures made in Notes 2.9 and 23 to the accounts concerning the measurement of liabilities relating to the contract for difference in respect of Hinkley Point C. As these notes describe, the fair value of this liability is highly sensitive to assumptions regarding future prices and volumes, particularly in view of the long timescales involved. As disclosed in Note 23, the uncertainty over the valuation of the Hinkley Point C contract for difference is such that the liability is not considered to meet the recognition criteria set out in the Conceptual Framework for Financial Reporting.

Basis of opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of HM Treasury in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- HM Treasury's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- HM Treasury has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt on the appropriateness of the presentation of the WGA using the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HM Treasury's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities within the WGA group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

- conclude on the appropriateness of HM Treasury's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the appropriateness of the presentation of the WGA using a going concern basis of accounting. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause HM Treasury to cease preparing the WGA using a going concern basis of accounting.

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Overview and Performance Analysis, the Statement of Accounting Officer's Responsibilities, the Governance Statement and the Annex. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, I have not identified any material misstatements in the Overview and Performance Analysis, the Statement of Accounting Officer's Responsibilities, the Governance Statement or the Annex; and

- the information given in the Overview and Performance Analysis, the Statement of Accounting Officer's Responsibilities, the Governance Statement and the Annex 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 returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Gareth Davies **21 July 2020**

Comptroller and Auditor General

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

Report of the Comptroller and Auditor General

1 **The Whole of Government Accounts (WGA) continues to provide the most complete and accurate picture of the financial performance and position of the UK public sector.** The WGA for the year ended 31 March 2019 consolidates the accounts of over 9,000 bodies across the public sector. HM Treasury aim to consolidate the financial information in accordance with International Financial Reporting Standards (IFRS) as adapted for the public sector context. HM Treasury first published the WGA for the year ended 31 March 2010. I have qualified my opinion on the WGA for the year ended 31 March 2019 because, in a number of significant areas, the WGA does not comply with IFRS as adapted for the public sector context, and this has a material effect on the figures presented. The areas that led to the qualification of my audit opinion are longstanding financial reporting issues I have reported on for a number of years.

2 **The longstanding qualifications to my audit opinion in relation to the accounting boundary and inconsistent accounting policies will remain for the foreseeable future**. I can only consider removing the qualification on the accounting boundary when government sells its stake in the Royal Bank of Scotland (RBS). Until then, HM Treasury chooses not to consolidate the significant value of RBS assets and liabilities as it would provide a distorted view of government's financial position and performance over time. The qualification in respect of inconsistent accounting policies is driven by local government infrastructure valuation. Local government uses an accounting framework – the Chartered Institute of Public Finance & Accountancy's Code of Practice on Local Authority Accounting in the United Kingdom – which is inconsistent with the framework used by the WGA. HM Treasury considers that the cost and work required for each local government body to prepare valuations that are consistent with both accounting frameworks would not be appropriate. I outline more detail to these qualifications in the Appendix to my report.

3 **The work carried out by HM Treasury and the Department for Education indicates I will not be able to remove the qualification to my audit opinion that arises from the consolidation of the academies sector for a number of years**. HM Treasury has been working with the Department for Education (DfE) and the National Audit Office to review options to resolve the qualification that arises due to the different financial reporting period used by the academies sector compared to the rest of government. Given concerns over the reasonableness of the cost and effort associated with resolving the issue, HM Treasury and DfE are only considering options to remove this qualification without changing the financial reporting periods of academies (which are aligned with the academic year) and without commissioning additional audited information. This makes it challenging to prepare sufficiently robust information showing the financial position and performance of academies as at the reporting date. Trend data that could have been used to support preparation of financial information for the academies sector as at 31 March each year may now be less relevant due to the disruption to the academy landscape as a result of the COVID-19 pandemic.

4 **The Ministry of Defence needs to carry out more work to enable HM Treasury to address the qualification to my audit opinion in relation to omission of assets and liabilities arising from leasing arrangements**. IFRS 16 Leases, the new accounting standard replacing the current IAS 17 Leases standard, is directed at improving transparency on lease assets and liabilities and takes effect for the majority of the public sector from 1 April 2021. The Ministry of Defence is working towards compliance with IFRS 16 Leases and has identified contracts that could potentially fall within the scope of the new standard, including a number of strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis. These strategic arrangements may provide for the exclusive, or near exclusive,

use of industrial assets and capability, which could result in additional assets and liabilities being recognised in the Ministry of Defence's accounts. The Ministry of Defence is not in a position to assess whether it will be able to comply with IFRS 16 Leases by the 2021-22 accounting year as required to enable HM Treasury to address the historic qualification. The Ministry of Defence also does not plan to reassess its compliance with the current IAS 17 Leases standard in respect of the 2019-20 and 2020-21 accounting years. If the Ministry of Defence does not have a full understanding of assets and liabilities that arise from carrying out its activities, its management of those assets and liabilities is unlikely to be effective.

5 **HM Treasury's ability to bring forward the publication date of the WGA is constrained by sustainability issues in the local government audit market.** HM Treasury is dependent on audits of central and local government bodies being completed in a timely fashion to support the consolidation of audited financial information to form the WGA. More than 40% (210 out of 486) of audit opinions on local government statements of accounts for 2018-19 were not available by the target date of 31 July 2019[1]. This comparable position in relation to 2017-18 was 13%. Public Sector Audit Appointments Limited (PSAA), the body responsible for appointing auditors to 98% of local government, police and fire bodies believes there are a number of factors driving this deterioration in performance. In some cases there has been a shortage of appropriately skilled and experienced auditors. In others, auditors reported that the standard and timeliness of draft accounts, associated working papers, and responses to audit queries has been lacking. These issues led to HM Treasury receiving audited financial information later than anticipated, delaying its planned accounts production timetable.

6 **The failure to complete audits of local government bodies in a timely fashion has led to a lower quality picture of the financial performance and position of the UK public sector**. Where audited financial information is not available for a public sector body, HM Treasury will seek to consolidate unaudited financial information. If unaudited financial information is unavailable, the relevant public sector body will be omitted from the WGA. Due to the issues in the local government audit market, there has been an increase in both the value of unaudited financial information consolidated as part of the WGA and an increase in the number of bodies omitted from the WGA. As a result of the increase in the value of unaudited information in the WGA, HM Treasury needed to carry out additional work to provide assurance that there was no risk of material misstatement in relation to these bodies. An increase in the number of bodies omitted from the WGA affects both the completeness and accuracy of the financial statements for the year ending 31 March 2019 and the ability to conduct trend analysis of the government's financial performance and position over time.

7 **Challenges to sustainability in the local government audit market may continue to affect the quality and timeliness of the WGA in the future.** PSAA commissioned an independent review of the sustainability of the local government audit market and published it in February 2020[2]. The report highlighted a number of key factors presenting a challenge to sustainability including the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable for publication of audited accounts; and the impacts of austerity on local public bodies including its consequences for the complexity of issues auditors face and its effect on the capacity of local finance teams. It also found that audit fees have not risen to compensate for these challenges that firms perceive they face. In response, PSAA carried out a market engagement process in June 2020 with audit firms registered with ICAEW or ICAS as local auditors under the Local Audit and Accountability Act 2014 to provide views and feedback to inform its consideration of whether a further procurement would be appropriate to improve sustainability of the local government audit market. But the challenges to sustainability remain and, consequently, may impact the preparation of the WGA for the year ending 31 March 2020.

8 **The scale and nature of the government's response to the current COVID-19 pandemic is likely**

[1] https://www.psaa.co.uk/wp-content/uploads/2019/08/PSAA-press-release-2018-19-audited-accounts-1.pdf
[2] https://www.psaa.co.uk/2020/03/news-item-independent-review-of-the-sustainability-of-the-local-government-audit-market/

to have a significant impact on the government's future financial position. The government has incurred significant costs in the 2019-20 and 2020-21 financial years to support activities across five response areas in relation to COVID-19: health and social care; other public services and emergency responses; support for individuals; support for businesses; and other support. There will be significant uncertainty about the valuation of assets and liabilities as at 31 March 2020 across the public sector and there is a risk that the statutory account information used by HM Treasury to produce the WGA may be either qualified by the statutory auditor, or that the auditor's opinion may limited due to uncertainties in specific balances.

9 **The COVID-19 pandemic will present challenges to the timely production of the WGA**. To alleviate the pressure on central government finance teams during the COVID-19 pandemic, HM Treasury extended the administrative deadline for laying 2019-20 Annual Reports and Accounts from 30 June 2020 to 30 September 2020. Similarly, the Ministry of Housing, Communities and Local Government informed local authority chief executives that the publication date for final, audited, accounts will move from 31 July for Category 1 authorities and 30 September for Category 2 authorities to 30 November 2020 for all local authority bodies. Consequently, HM Treasury has extended its deadlines for submission of the audited financial information required for the WGA to 4 December 2020, compared to 13 September in the prior year. As outlined by the Accounting Officer in the Governance Statement, the process for producing the WGA is a complex undertaking and the extension to the submission deadline will impact on the publication timetable for the WGA. Should component bodies fail to meet the extended deadline, this will further impact on HM Treasury's ability to deliver the WGA for the year ending 31 March 2020 in a timely manner.

10 **HM Treasury intend to use a new IT system to carry out the consolidation of financial information to produce the WGA for the year ended 31 March 2020**. HM Treasury's new consolidation system is designed to both improve the quality of government financial data and support quicker delivery of the WGA through efficiencies in the account production process. HM Treasury has achieved its ambition to use the new IT system in the production of the WGA for the year ending 31 March 2020. While this is a significant milestone in the development of the WGA, HM Treasury still has to complete all its planned testing, such as a test of the process that demonstrates the information it consolidates reconciles to audited financial statements. HM Treasury continues to develop this aspect of the process, which is some months away from being required. The absence of a full test of the process at this stage does increase the risk associated with the production of the next WGA.

11 **HM Treasury has more to do to enable the public and Parliament to use the WGA to assess the success, or otherwise, of the delivery of public policy.** In its letter of 2 September 2019, the Public Accounts Committee (the Committee) set out the need for WGA to provide better insight into how well the government is managing risks to fiscal sustainability and how well the government is performing against its key policy objectives relating to managing fiscal risks and other performance measures. The Committee also highlighted the need for the WGA to ensure users of the accounts have access to the information they find valuable in the WGA. HM Treasury has sought to make improvements to its report and has included an assessment of the current and potential future impact of the COVID-19 pandemic on the government's financial position to help the user of the accounts to understand how the position as at 31 March 2019 may change. However, the report still does not meet the Committee's request to allow the user to understand the nature of government's objectives in the period and then what it achieved against these objectives. In its response to the Committee's letter, HM Treasury stated it would consider adopting information set out in the 2019 Spending Round to provide more insight in the WGA for the year ending 31 March 2020.

Appendix

Details supporting longstanding qualifications of the Comptroller and Auditor General's audit opinion

Summary

1 This appendix outlines details supporting longstanding qualifications of my audit opinion on the WGA: my qualification relating the WGA boundary and my qualification relating to the inconsistent application of accounting policies. I also outline some issues that have been identified in statutory audits of bodies within WGA but that do lead to a qualification of my audit opinion.

Qualified audit opinion relating to the WGA boundary

2 I have qualified my opinion because, in my view, the Treasury has not complied with applicable accounting standards in determining which bodies to include in the WGA. Significant assets and liabilities have, therefore, been omitted from the financial statements.

3 In my previous Reports[3], I have noted that in determining the boundary for the WGA, the Treasury has adopted the classifications of public bodies used by the Office for National Statistics (ONS), rather than apply accounting standards which require the inclusion of bodies that are subject to government control and that define control as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'.[4]

4 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes a number of significant bodies. The Treasury has also not applied its own criteria consistently as there are a number of bodies that fall within both statistical and accounting definitions of government 'control' but have not been included in the WGA. These include:

- a number of small bodies that have not been consolidated on the basis of size;
- other bodies that are partly or wholly owned by the government, such as the Royal Bank of Scotland (RBS); and
- bodies that have not provided data for consolidation.

5 In accordance with the accounting framework, I consider that these bodies should be included in the WGA. However, despite the government's controlling shareholding in RBS which means I need to include it within the qualification on technical grounds, I support the Treasury's exclusion of RBS from the WGA as its scale and the nature of its activities would distort the reflection of government's core activities within the financial statements.

6 I cannot quantify the impact of this on the WGA with certainty, as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view. However, for illustrative purposes, I have examined the impact of aggregating the gross assets, liabilities, income and expenditure published in the individual accounts of public sector bodies that the Treasury did not include in

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803751/WGA_2017-18_WEB_1.pdf#page=186

[4] International Financial Reporting Standard 10 – Consolidated Financial Statements.

the WGA. Although these figures are only illustrative, they demonstrate that the exclusions represent material omissions from the WGA (**Figure 1**).

Figure 1

Illustrative impact on the WGA net deficit and net liability from bodies that have been exclude from the WGA

	Revenue	Expenditure	Impact on the net deficit	Assets	Liabilities	Impact on the net liability
Royal Bank of Scotland	15.7	14.6	1.1	675.7	647.7	28.0
Further education institutions	1.5	1.6	(0.1)	12.9	2.8	10.1
Other bodies	1.6	1.8	(0.2)	2.9	1.9	1.0
Bodies which failed to provide WGA returns	4.4	4.2	0.2	10.2	6.5	3.7
Total	**23.2**	**22.2**	**1.0**	**701.7**	**658.9**	**42.8**

NOTES

1. Further education institutions have been estimated from data provided by Skills Funding Agency (covering England only) for 2018-19. Income and expenditure is net of transactions within the WGA group.
2. Other bodies include Trust Ports and other minor bodies. Figures have been estimated from the latest available accounts.
3. The bodies have been treated as if they had always been entirely owned by the public sector. For Royal Bank of Scotland, no account has been taken of the residual private sector shareholdings or intra-government transactions and balances. The RBS asset value has also been adjusted to reflect that WGA would no longer hold shares in the Bank as an asset on full consolidation.
4. Not all bodies have a March year-end, e.g. figures for RBS relate to the year ending 31 December 2018.
5. All figures are in £ billions.

Source: National Audit Office analysis of WGA 2018-19 and published accounts

Qualification arising from disagreement relating to the inconsistent application of accounting policies

7 I have qualified my opinion due to the impact of the inconsistent application of accounting policies that HM Treasury has applied in producing the WGA.

8 The financial reporting framework that WGA must follow is set out in the Government Financial Reporting Manual (FReM) which applies International Financial Reporting Standards (IFRS), as adapted for the public sector context. However, for 2018-19, some of the bodies included in the WGA prepared their accounts based on accounting frameworks that are inconsistent with the requirements of the FReM.

9 Under accounting standards, HM Treasury should identify the impact of the different frameworks and make appropriate adjustments to the WGA, where material, so that the WGA as a whole is prepared on a consistent basis.[5]

[5] International Financial Reporting Standard 10 Consolidated Financial Statements

10 Material misstatement in the WGA arises from differences between the financial reporting frameworks used by local government and public corporations, which require infrastructure assets to be valued using historical cost, and the requirements of the FReM, which determines that central government should value these assets at their depreciated replacement cost.

11 Local authority infrastructure assets consist primarily of local highways infrastructure but also other assets such as coastal defences, airports and light rail, including the London Underground network.

12 HM Treasury estimates the impact of this inconsistency with reference to a calculation made by the Office for National Statistics (ONS) in its National Accounts estimate,[6] which as at 31 December 2018 valued the local authority road network at £131 billion (£128 billion restated in 2017). The value of local government infrastructure reported in the WGA for the year ended 31 March 2019 is £72.2 billion. HM Treasury therefore considers the undervaluation of these assets to be at least £58.8 billion (£47.8 billion in 2017-18).

13 In the 2016 National Accounts estimates, the ONS changed its methodology for calculating the value of the local authority network due to requirements from Eurostat to provide estimates of land values separately from the related assets. Its estimations therefore do not include the valuation of any land underlying the infrastructure assets which would be required to be included in a depreciated replacement cost valuation as prescribed by the FReM. It is therefore likely that the valuation error in the WGA for the year ended 31 March 2019 is significantly higher than the £58.8 billion calculated using data from the current ONS methodology.

14 Key to local authorities producing depreciated replacement cost valuations of their infrastructure network is robust information on: the extent and location of the authorities' assets, the current condition of these assets, and up-to-date costs required to maintain and rebuild the network. This information is also vital to good asset management. The development and recording of this information would benefit local authorities looking to make strategic decisions regarding maintenance and capital investment in their road networks, and help the Treasury and other government departments such as the Department for Transport to develop a holistic view of the condition of this vital infrastructure across the UK.

15 In addition to the misstatement arising from the differences between the valuation of infrastructure in the local and central government settings, the discrepancy also arises between central government and public corporations which follow IFRS rather than the FReM. There are a number of bodies where this discrepancy may be material and these are adjusted by HM Treasury. In the case of Northern Ireland Water Limited, the value of its infrastructure held at the year end has not been adjusted. Whilst it is not possible to determine the precise value of this misstatement, based on bodies of a similar nature and size we estimate that the understatement of infrastructure assets is material to the WGA.

Other issues on which I have not qualified my opinion

16 There are two other issues that I wish to draw attention to, neither of which have led to a qualification of my audit opinion.

17 The external auditor of 10 accounts for the year ending 31 March 2019 (2017-18: 10) included in the WGA qualified its audit opinions owing to the existence of material irregular transactions; that is, not using resources in accordance with Parliamentary intentions. Of these, two are of significance to the WGA and cover error and fraud in benefit payments and tax credit payments. These irregularities have led me to qualify my regularity opinion on the financial statements of the Department for Work & Pensions[7] and HM Revenue & Customs.[8] Because the scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, irregular

[6] Office for National Statistics, The UK national balance sheet: 2018 estimates, Table 9, November 2019
[7] Department for Work and Pensions Annual Report and Accounts 2018/19, HC 2281, 27 June 2019
[8] HM Revenue and Customs Annual Report and Accounts 2018-19, HC 2394, 18 July 2019

transactions do not lead to a qualification of my audit opinion on the WGA.

18 Parliament authorises central government departments' proposed cash spending and use of resources. HM Treasury is responsible for monitoring and overseeing central government departments' compliance with the limits authorised by Parliament and for controlling adjustments to the approved limits during the financial year. If a department needs to adjust its budget during the year it has one opportunity to do so via a Supplementary Estimate, which is approved by Parliament towards the end of the financial year. Parliament expects departments to stay within the limits they are voted. Any expenditure outside the limits authorised by Parliament potentially undermines parliamentary control over public spending.

19 Where these limits are exceeded, I qualify my regularity opinion on the financial statements since this means government departments have incurred expenditure that is not in line with Parliament's intentions. Both the Department for Education[9] and the Northern Ireland Office[10] incurred excess expenditure against approved limits for the 2018-19 reporting period. These irregularities have led me to qualify my regularity opinion on the financial statements of the Department for Education and Northern Ireland Office. Because the scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, these transactions do not lead to a qualification of my audit opinion on the WGA.

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819715/DfE_ARA_2018-19_web__1_.pdf#page=114

[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841932/NIO_Annual_Report_and_Account_for_laying_on_2410191_-_certified_by_C_AG_on_231019__2_.pdf#page=93

Annex A

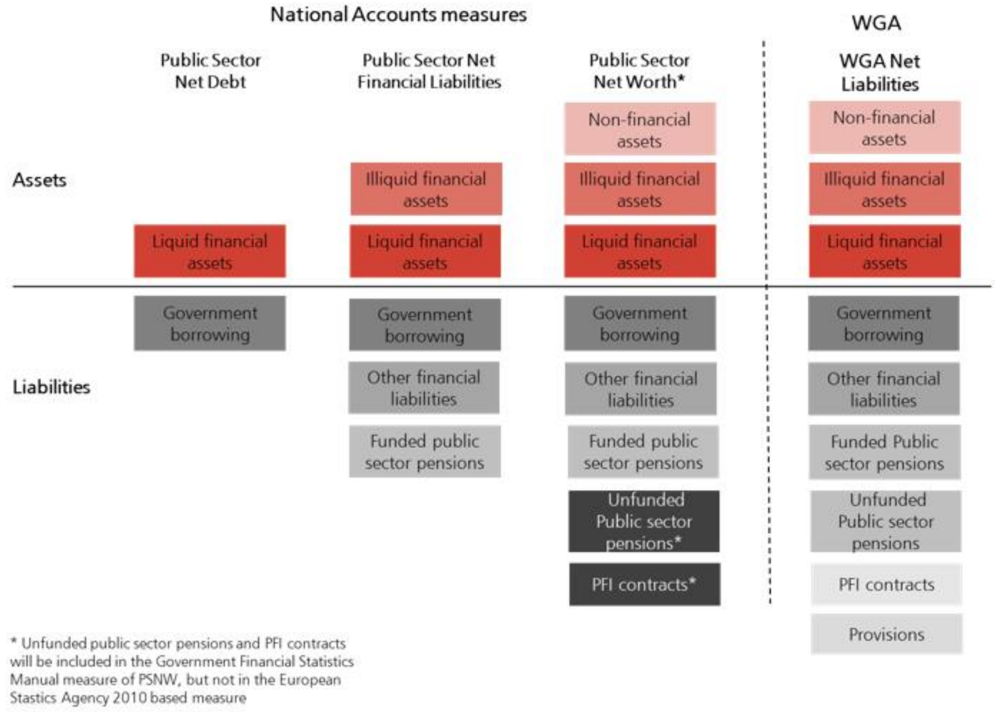
Comparison to the National Accounts

WGA and the National Accounts

5.1 WGA is comprehensive, but not without limitations. Box 1.I provides more information on what is not included in WGA. However, one of the key issues is that published financial statements, including WGA, are not published in a timely enough fashion to allow day-to-day control of the public finances. In order to understand and control the public finances, the government uses the National Accounts. These are statistical measures that do not include the full range of assets and liabilities that are included in WGA, but are much timelier.

5.2 In looking at the fiscal picture, there are various statistical measures available in the National Accounts providing a complementary perspective of the health of the government's balance sheet. **Public Sector Net Debt** (PSND) comprises government borrowings less liquid financial assets (such as bank deposits and foreign exchange reserves). PSND excluding the public sector banks is the government's preferred measure of fiscal health as it is consistent with the internationally agreed National Accounts framework. Public Sector Net Financial Liabilities expands on PSND to include all financial assets, such as loans, derivatives and equity investments. The most comprehensive measure derived from National Accounts is **Public Sector Net Worth** which compares the government's debt with all its assets, including physical assets used to deliver services such as infrastructure, offices, hospitals and schools.

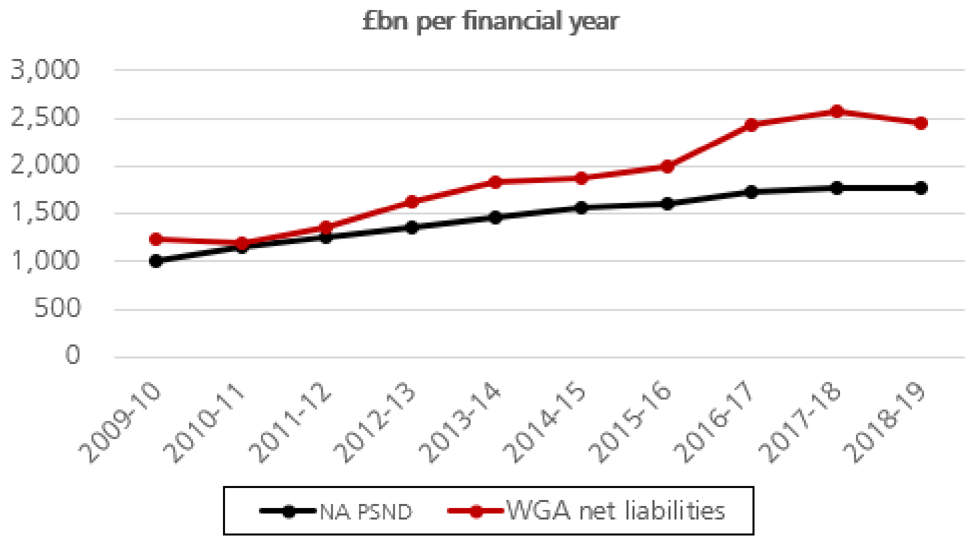
Chart 5.A: Comparison of National Accounts and WGA measures



Source: HM Treasury

5.3 **WGA Net Liabilities** is more comprehensive than Public Sector Net Debt, including non-financial assets and public sector pensions liabilities, provisions and PFI contracts. Further explanations of the differences between the WGA and National Accounts will be given later in this annex.

Chart 5.B: National Accounts (NA) PSND and WGA net liabilities

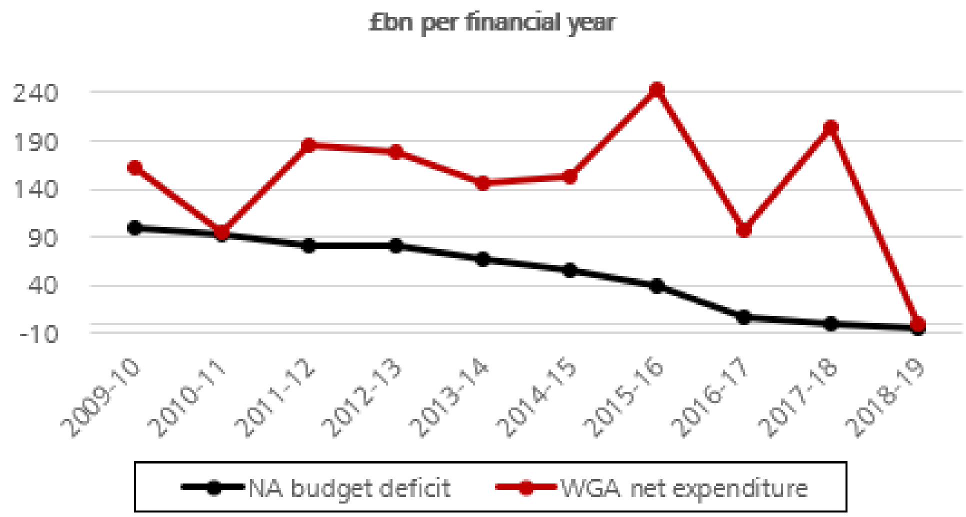


Source: HM Treasury and ONS data

5.4 Over the 10 years that the WGA has been published, the overall trend of the National Accounts PSND and the WGA net liabilities has generally been similar.

There was a divergence for 2016-17 and 2017-18. This is because pension liabilities increased in value that year, which affects WGA net liabilities but not National Accounts PSND.

Chart 5.C: National Accounts (NA) Public Sector current budget deficit and WGA net expenditure



Source: HM Treasury and ONS data

5.5 Whilst the National Accounts and WGA show a similar balance sheet picture, there is greater difference on net expenditure. The National Account current budget deficit has been steadily reducing over the last 9 years. The WGA net expenditure series over the same period has shown greater volatility, mainly due to the expenditure for financing government's long-term liabilities which are included in the WGA but not in the National Accounts. The financing costs of long-term liabilities is affected significantly by changes to the discount rates used to discount future cash flows. This had a particular impact in 2015-16 and 2017-18, as there was a change in discount rates for certain provisions that impacted financing costs in WGA but did not affect the National Accounts deficit. Discount rates are looked at in more detail in Notes 2.5 to 2.6.

Box 5.A: Why does government use National Accounts?

WGA is prepared under International Financial Reporting Standards (IFRS). The standards are interpreted and adapted for the public sector context, but overall WGA is prepared on a similar basis to the private sector and is independently audited by the NAO. The benefits of WGA are that it provides a complete picture of the government’s financial position, the future consequences of decisions already taken and financial commitments already entered into (for example pensions, PFI).

Public finances also apply internationally agreed standards, in this case the National Accounts rules (European System of National and Regional Accounts) which apply for measuring economic activity. Reporting is carried out by the independent Office for National Statistics. The benefit of the National Accounts is that they are available within a much shorter timescale than WGA.

There is more that is common than different between the two frameworks (for example the use of the accruals accounting concept, production of a balance sheet and production of an analysis of income and expenditure), allowing the two views to be combined. The UK goes further and reconciles WGA to the National Accounts to provide further transparency.

The government's preferred measure of Public Sector Net Debt excludes public sector banks. It equals external borrowings less liquid financial assets

The rest of this chapter explains the differences between accounting standards and National Accounts rules and then provides a reconciliation from WGA to the National Accounts.

Comparison between accounting standards and National Accounts

The accounting standards followed by WGA are International Financial Reporting Standards (IFRS) and the statistical rules followed by the National Accounts are set out in the European System of Accounts (ESA). Both frameworks have core similarities:

They are both prepared on an accruals basis (recognition of economic events regardless of when cash transactions occur)

They each prepare a statement of financial position, income and expenditure analysis and details of other changes

They both exclude future tax revenue, future assets, and liabilities that will be incurred in the future (such as future benefit and state pension payments).

Comparing WGA expenditure to the Public Sector current budget deficit

The public sector current budget deficit is an important balance in the fiscal framework. The current budget deficit is the difference in the financial year between accrued current revenue and expenditure as defined in the National Accounts.

One of the main differences between the current budget deficit used in National Accounts and total expenditure used in WGA is that the National Accounts exclude the financing costs of long-term liabilities. Instead, the National Accounts recognise these liabilities when they are due to be paid.

Comparison to Public Sector Net Debt

Public sector net debt can be defined as the public sector's consolidated gross debt, less its assets that could be readily sold as defined in the National Accounts. The difference between the National Accounts and WGA measures of public sector net debt and net liabilities is primarily due to differing treatments of the public sector pension liability, property, plant and equipment and provisions.

Differences between WGA and National Accounts

The differences between IFRS and ESA in how they recognise, and value certain assets, liabilities and items of expenditure are summarised below:

Differences between WGA (IFRS) and National Accounts (ESA)

Area	WGA treatment	National Accounts treatment
Grants to fund capital expenditure	Is recognised as an expense in-year as it does not result in an asset for government	Is always capitalised on the basis that it results in an asset in the wider economy
Research and development expenditure	Can be capitalised if it is likely to result in an asset but is frequently recognised as an expense in-year	Is capitalised more frequently on the basis that it is an investment lasting for more than one year
PFI	Most PFI assets and liabilities are recognised on balance sheet after assessing control of the assets. PFI payments are apportioned between repaying debt, paying interest and paying for services	Most PFI assets and liabilities are not recognised on the balance sheet after assessing risks and rewards. Payments under PFI contracts are recognised as a current expense in-year for off balance sheet schemes and a capital expense in-year for on balance sheet schemes.
Depreciation of assets	Is calculated for each asset individually based on its estimated useful economic life and residual value	Is calculated using standard statistical models, high level data and asset life assumptions.
Revaluation and impairment of assets	Assets are revalued as set out in Note 1 of the WGA. Assets are assessed annually for impairment compared to their carrying value	Assets are recognised at cost less depreciation and are not revalued. Only impairments caused by obsolescence or accidental damage are recognised
Profit or loss on sale of assets	Recognised as income or expenditure	Proceeds of sale are recognised but not the profit or loss
Gilts	WGA bodies hold gilts at fair value, these are eliminated on consolidation and all the remaining gilts are held at amortised cost	Gilts are included based on their redemption price
Public sector pensions	Recognises expenditure when rights accrue to employees, even though payment is not due	Recognises expenditure as it is paid to retirees. The future liability for current employees is not recognised
Provisions	Recognises expenditure when it becomes probable that a payment will be needed because of past events	Recognises provisions only when they are settled (i.e. there are actual payments). Amounts expected to be paid out in future because of past events are not recognised
Effects of discounting future liabilities	Future cash flows are discounted to estimate the value of the liability. Changes to the cash flows and discount rate are recognised in-year	Not included

Transactions within government	Transactions are eliminated entity by entity in a process that takes several months. The residual elimination error is quantified and subject to audit	Transactions are eliminated using a quicker and higher-level approach. The residual elimination error cannot be quantified
Asset Purchase Facility	Shows gilt purchases at fair value	Records the gilt purchases at nominal value
UK Asset Resolution (UKAR)	Includes both the liabilities and the assets.	Includes UKAR's own debts to the private sector and excludes their non-liquid financial and other assets
Housing associations	Not included within the WGA boundary	Housing Associations used to be included in the National Accounts but are no longer

Reconciliation to Public Sector Net Debt

Public Sector Net Debt is a measure that is calculated from the National Accounts. The same figures can be compiled from WGA, but the total net liabilities recognised within WGA are more extensive than those recognised in Public Sector Net Debt. This is partly because Public Sector Net Debt is only part of the National Accounts balance sheet and partly because WGA recognises additional assets and liabilities which are not included on the National Accounts balance sheet.

Public Sector Net Debt compared to total WGA net liabilities

The reconciling amounts included in the table above are calculated as the difference between the value of a balance in WGA and the value of the same balance in the National Accounts. These amounts are therefore not directly comparable to the amounts included in the Financial Statements in Chapter 4.

Public Sector Net Debt compared to total WGA net liabilities

	2018-19 £bn	2017-18 £bn	2016-17 £bn
Public Sector Net Debt (National Accounts)	1,774	1,779	1,727
Add liabilities not recognised in National Accounts:			
Net public sector pensions liability	1,894	1,865	1,835
Provisions	311	422	322
PFI contracts	32	33	33
Adjust assets measured differently in national accounts:			
Asset Purchase Facility	(194)	(200)	(127)
Unamortised premia on gilts	56	54	51
UK Asset Resolution (UKAR) net impact on net debt	(2)	(10)	(24)
Add assets and liabilities excluded from measure of PSND:			
Property, plant and equipment	(1,268)	(1,208)	(1,168)
Investment property	(23)	(20)	(18)
Intangible assets	(37)	(36)	(35)
Trade and other receivables	(41)	(42)	(49)
Prepayments and accrued income	(108)	(103)	(91)
Inventories	(10)	(10)	(9)
Investments	(53)	(52)	(51)
Trade and other payables	51	53	51
Accruals and deferred income	61	62	59
Deduct liabilities not yet recognised in WGA			
Housing associations	-	-	(70)
Other adjustments including eliminations	12	(22)	(15)
Net liabilities (WGA)	2,456	2,565	2,421

Reconciliation to Public Sector Current Budget Deficit

Public Sector Current Budget Deficit is also calculated from the National Accounts and the government's preferred measure excludes public sector banks. Total net expenditure in WGA is higher than the Public Sector Current Budget Deficit primarily because it includes expenditure on long-term liabilities.

Public sector current budget deficit

	2018-19 £bn	2017-18 £bn	2016-17 £bn
Public sector current budget deficit (National Accounts)	(6)	(1)	7
Add expenditure on liabilities excluded from National Accounts:	0	0	0
Increase in provisions	21	5	7
	0	0	0
Adjust expenditure calculated differently from National Accounts:	0	0	0
Public sector pensions	0	0	0
Depreciation and amortisation	(15)	(10)	(10)
Impairments and revaluations of assets	13	25	15
Net (gains)/Losses on sale of assets	4	4	2
Capital grants	10	9	9
Research and development	2	2	2
	0	0	0
Other adjustments including eliminations	27	11	8
Net expenditure on public services (WGA)	**56**	**44**	**40**
	0	0	0
Financing costs of long-term liabilities, including discounting	(57)	154	68
Revaluation of financial assets and liabilities	(1)	5	(10)
Total net expenditure (WGA)	**-2**	**203**	**98**

The reconciling amounts included in the table above are calculated as the difference between the value of a transaction in WGA and the value of the same transaction in the National Accounts. These amounts are therefore not directly comparable to the amounts included in the Financial Statements in Chapter 4.

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