

# HM Treasury Resource Accounts 2008– 2009

Report by the Comptroller and Auditor  
General

## **THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of HM Treasury for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Accounting Officer and auditor**

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Introduction, Executive Summary, Chapters 4 and 5 (excluding the Tables), and Annexes B and C, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Chapters 1 to 3 and Annexes A, D and E of the Annual Report, and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### **Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of HM Treasury's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic

objectives, recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Introduction, Executive Summary, Chapters 4 and 5 (excluding the Tables), and Annexes B and C, included within the Annual Report, is consistent with the financial statements.

### **Qualified Audit Opinion on Regularity arising from resource expenditure in excess of amounts authorised**

Parliament authorised a Request for Resources 1: "*Raising the rate of sustainable growth and achieving rising prosperity and a better quality of life, with economic and employment opportunities for all*" of £20,992,316,000. Against this limit, HM Treasury incurred net resource expenditure of £44,808,175,000, as shown in the Summary of Parliamentary Supply for 2008–09, and have thus exceeded the authorised limit. This excess arose due to the need to provide for some £25 billion for the net losses to be incurred on the Asset Protection Scheme which was not included in HM Treasury's Parliamentary Estimates.

The net resource expenditure was £23,815,859,000 in excess of the amount authorised for Request for Resources 1. In my opinion, except for this excess, in all other material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

More details are set out in my following Report.

**Amyas C E Morse**  
**Comptroller and Auditor General**  
**17 July 2009**

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# REPORT BY THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

## Introduction

- 1 In 2008–09, HM Treasury incurred some £23.8 billion more resources than Parliament had authorised in the Supply Estimate. This represents an “excess” for which further Parliamentary authority is required and I have therefore qualified my opinion on HM Treasury’s Resource Accounts.
- 2 Under section 6(1) of the Government Resources and Accounts Act 2000 Act, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In doing so, I have regard, in particular, to the Supply limits Parliament has set on expenditure.

## Expenditure Limits

- 3 For 2008–09, HM Treasury had three Requests for Resources for which Parliament authorised amounts for current expenditure which are net of forecast income (Appropriations in Aid or “A in A”):
  - **Request for Resources 1:** Raising the rate of sustainable growth and achieving rising prosperity and a better quality of life, with economic and employment opportunities for all;
  - **Request for Resources 2:** Cost effective management of the supply of coins and actions to protect the integrity of coinage; and
  - **Request for Resources 3:** Obtaining the best value for money for Government’s commercial relationships on a sustainable basis.
- 4 Parliament sets limits on the amount of operating A in A that can be applied to expenditure. The amounts authorised for each Request for Resources and related Appropriations in Aid together represent a limit on the gross current expenditure that may be incurred. A in A in excess of the approved limit have to be surrendered to the Consolidated Fund.
- 5 Parliament also sets a limit on the overall net cash HM Treasury may use in total, known as the *net cash requirement*.

## HM Treasury Resource Accounts 2008-09

- 6 The Accounting Officer notes in his Statement on Internal Control, that this financial year has been an exceptional one for HM Treasury. This has resulted in a series of interventions to ensure the stability of the financial system and restore the flow of credit within the economy.

- 7 In order to finance these interventions, HM Treasury requested and received additional resources and cash at key stages during 2008–09. These bids were made through Supplementary Estimates and adjusted Request for Resources 1, increasing the net resource limit from £315 million to £21,068 million and the net cash requirement from £14,221 million to £89,236 million (Table 1).

**Table 1: Amounts Authorised by Parliament for HM Treasury 2008–09**

2008–09 Estimates	Net Resources (£million)	Net Cash (£ million)
Main Estimates April 2008 (HC 479)	315	14,221
Summer Supplementary Estimates June 2008 (HC 621)	–	5,300
Out-of-turn Supplementary Estimate October 2008 (HC 1061)	–	42,200
Winter Supplementary Estimates November 2008 (HC 1163)	8	23,413
Revised Spring Supplementary Estimates February 2009 (HC 265)	20,745	4,102
<b>Total</b>	<b>21,068</b>	<b>89,236</b>

Source: HM Treasury Estimates 2008–09

- 8 The main components of the net cash requirement were to provide HM Treasury with:
- £46 billion to re-finance the loans initially provided by the Bank of England to Northern Rock (Note 29), the Financial Services Compensation Scheme (Note 38.3), and Bradford and Bingley (Note 30);
  - £37 billion to purchase shares in Royal Bank of Scotland (Note 31 to the Accounts) and HBOS/Lloyds (Note 32); and
  - £6 billion to pay over amounts to cover deposits in Bradford and Bingley (Note 30), the Icelandic banks (Notes 33, 34 and 36), and London Scottish Bank (Note 35).
- 9 Included within the £20,745 million increase in resource expenditure in the revised Spring Supplementary Estimates was £20,000 million to cover the reduction in the value (the “impairment”) of certain financial investments and loans.

### **Breach of Expenditure Limits on Request for Resources 1**

- 10 The Accounts (The Statement of Parliamentary Supply) show net expenditure outturn of £44,808,175,000 which is £23,815,859,000 more than the authorised limit of £20,992,316,000. The operating income authorised to be appropriated in aid of expenditure was £135,925,000 and was received in full

and applied. HM Treasury received a further £7,289,000, shown as Administration Income Payable to the Consolidated Fund (“excess Appropriations in Aid”) in Note 9 to the Accounts. HM Treasury propose to ask Parliament to:

- increase the limit on Appropriations in Aid by £7,289,000 so that it can be applied towards meeting the excess on the Request for Resources; and
- grant an Excess Vote for the balance of £23,808,570,000.

### **Reasons for the excess expenditure on Request for Resources 1**

- 11 On 19 January 2009, as part of a range of measures to reinforce financial stability and increase market confidence, the Government announced its intention to offer an Asset Protection Scheme. Under this Scheme, HM Treasury will provide banks with protection against future credit losses on certain assets in exchange for a fee. A “first loss” remains with the bank but the Government’s protection will cover 90 per cent of credit losses above this amount, with the participating bank retaining the residual exposure.
- 12 On 26 February 2009, HM Treasury announced further details of the Scheme and an agreement in principle that the Royal Bank of Scotland Group would participate in the Scheme by seeking to protect some £325 billion of eligible assets for a fee made up of £6.5 billion of non-voting ordinary shares (Note 31.2 to the Accounts). The Bank will also agree, over a period to be finalised, not to claim certain UK tax losses or allowances. On 7 March, Lloyds Banking Group announced that it would also participate in the Scheme protecting some £260 billion assets for a fee of £15.6 billion of non-voting ordinary shares (Note 32.2).
- 13 The banks signed pre-accession agreements with HM Treasury on the dates the announcements were made. HM Treasury’s intention is to move to full legally binding agreements with the banks over summer 2009. By 30 June, this process had not yet concluded. HM Treasury had undertaken but not completed further due diligence work. It was also finalising negotiations with the banks. Once full agreements are reached with the banks, the deals will then be subject to EU State Aid and shareholder approval. HM Treasury currently expects the Scheme to be underway no later than autumn 2009.
- 14 In accounting for this Scheme, HM Treasury have concluded that, at the balance sheet date, it had a “present obligation” under Accounting Standards to make payments arising from this Scheme. HM Treasury had no legal obligation at the balance sheet date, but it had taken actions which created an expectation that the Scheme would be implemented. These actions included public statements, ongoing negotiations with the participating banks, and advertising for the post of Chief Executive of the Asset Protection Agency, the body set up to administer the Scheme.

15 At this stage, HM Treasury has estimated the scale of the expected losses on the Scheme at some £25 billion (Note 19.3 to the Accounts). It knew from the outset that the Scheme would result in a significant loss but it could not estimate the amount until the banks had confirmed their participation in it in March. It was therefore too late at this stage for HM Treasury to seek extra resources from Parliament to meet these losses which it has recorded as a provision against expenditure. It therefore breached its expenditure limit on Request for Resources 1.

### Other Matters

16 In February 2009, HM Treasury also made arrangements to obtain cash funds if they were required urgently. Part 7 of the Banking Act 2009 allows the Treasury to draw funds directly from the Consolidated Fund to provide financial assistance to banks where the need for such funds is so urgent that it cannot use the normal Supply process. In March 2009, HM Treasury drew on this for the first time to obtain some £1.6 billion to cover the deposits transferred from Dunfermline Building Society, avoiding a breach of its net cash requirement limit. The assets purchased with these funds are included in HM Treasury's balance sheet (Notes 13 and 37 to the Accounts).

17 Included within the Spring Supplementary Estimate, HM Treasury obtained an additional £20,000 million of resources to cover the reduction in the market value of certain financial investments and loans. The value of its shareholdings in the Royal Bank of Scotland Group and the Lloyds Banking Group fell by some £17.3 billion between the dates of purchase and the balance sheet date. HM Treasury has written off this amount (Note 13 to the Accounts) to its Operating Cost Statement, following normal accounting practice.

18 UK Financial Investments Limited manages the shareholdings in these banks on behalf of HM Treasury. Its objectives are to sell HM Treasury's investments in a way and at a time that will protect and create value for the taxpayer as shareholder, with due regard to financial stability and acting in a way that promotes competition. HM Treasury have told me that it will only be when the shares are sold that the true value of any real gains or losses to the taxpayer arising from these shareholdings will become known.



## Conclusion

19 HM Treasury has incurred an Excess Vote on Request for Resource 1 of £23,815,859,000 for which it requires retrospective Parliamentary approval. It will therefore seek Parliament's approval to increase the limit on Appropriations in Aid by £7,289,000 as additional use of resources and to authorise an Excess Vote for the balance of £23,808,570,000.

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17 July 2009*

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