Presented pursuant to Section 21(1) of the National Loans Act 1968

Consolidated Fund and National Loans Fund Account 2004-2005

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 06 DECEMBER 2005

LONDON: The Stationery Office
HC 752

2 February 2006
£8.50

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Foreword

Introduction to the Consolidated Fund and National Loans Fund

The Consolidated Fund (CF) was first set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'. The basis of the financial mechanism by which the CF is operated is governed by the Exchequer and Audit Departments Act 1866.

In order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other, the National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending, which were until then accounted for on the CF.

Both the CF and NLF are administered by the Treasury, with the bank accounts maintained at the Bank of England. The CF can therefore be regarded as the central government's current account, whereas the NLF can be regarded as the central government's main borrowing and lending account.

The NLF has statutory relationships with other government funds. It provides finance for the Debt Management Account (DMA) and the Exchange Equalisation Account (EEA). It also makes loans to various statutory public sector bodies and provides the finance needed by the Public Works Loan Board (PWLB). The UK's Reserve Tranche position with the International Monetary Fund (IMF) is an asset of the NLF. The profits of the Issue Department of the Bank of England are paid to the NLF. National Savings and Investments' (NS&I) savings products, other than the Ordinary Account, are liabilities of the NLF.

Consolidated Fund Account

Scope of the account

The CF receives the proceeds of taxation and certain other government receipts, makes issues to finance Supply Services, meets the Standing Services directly charged by Statute, and reimburses the NLF for net interest costs. The CF finishes every day with a nil balance on its bank account because any surpluses or deficits are offset by transfers to or from the NLF.

The receipts of the CF mainly consist of

- tax revenues such as those collected by Inland Revenue and Customs and Excise;
- repayments from the Contingencies Fund; and
- balancing payments from the NLF when daily payments by the CF exceed its receipts.

The payments of the CF are mainly for

- supply services, which are issues to finance expenditure voted annually by Parliament on the basis of the Estimates submitted to it by the Government;
- standing services, which are charges exempt from any need to be voted annually by Parliament because it has by statute permanently authorised the payments; and
- issues to the Contingencies Fund.

Summary of outturn for 2004-2005

The Account shows the transactions described above. Taxation accounted for £300.7 billion of receipts. Supply Services accounted for £325.5 billion of payments and a further £17.0 billion was transferred to the NLF for net interest costs. The deficit of £37.9 billion for the year was met from the NLF.

Preparation of the account

The Account is prepared under section 21 (1) of the National Loans Act 1968. The Act requires the Treasury to prepare an account for the CF for each financial year in such form and containing such information as the Treasury considers appropriate.

The CF Account remains on a cash basis, as an account of payments and receipts. Notes to the Account provide detail on Standing Service payments and receipts. Certain transactions and contingent liabilities, borne directly by the CF, cannot be brought to account in other statutory accounts and are disclosed more appropriately in the CF Account. These items include pensions paid directly from the CF and the UK's capital subscription to the European Investment Bank. This additional information is disclosed on an accruals basis, to assist preparation of Whole of Government Accounts, in Notes 7-11 to the CF Account.

There is no direct read-across between the accruals-based Notes 7-11 and the cash-based CF receipts and payments account.

Audit

The CF Account is audited by the Comptroller and Auditor General under the requirements of the National Loans Act 1968.

National Loans Fund Account

Scope of the account

The NLF receives the proceeds of, and finances the repayment of, central government borrowing. CF net deficits are financed by the NLF. Conversely, net surpluses on the CF are passed to the NLF. The NLF finishes every day with a nil balance on its bank account because any surpluses or deficits are offset by transfers to or from the DMA.

Summary of out-turn for 2004-2005

The Account shows the NLF's income and expenditure, assets and liabilities and net cashflow. The net operating cost on the Fund was £20.5 billion, arising primarily from the cost of servicing government debt, offset by income from lending operations and other income. Total liabilities were £530.5 billion, an increase of £27.1 billion over the year. Assets were £76.0 billion, predominantly loans and advances, a decrease of £14.3 billion over the previous year. The net liability of £454.5 billion on the Fund is represented by the CF's liability to the NLF.

Preparation of the account

The Account is prepared under section 21 (1) of the National Loans Act 1968. The Act requires the Treasury to prepare an account for the NLF for each financial year in such form and containing such information as the Treasury considers appropriate.

Audit

The NLF Account is audited by the Comptroller and Auditor General under the requirements of the National Loans Act 1968.

Nicholas Macpherson
Accounting Officer
HM Treasury

22 November 2005

Statement of Accounting Officer's responsibilities

Under section 21 (1) of the National Loans Act 1968 HM Treasury is required to prepare accounts relating to the Consolidated Fund and the National Loans Fund for each financial year in such form and containing such information as the Department considers appropriate.

The Consolidated Fund Account is prepared on a cash basis and must properly present the receipts and payments for the financial year. As explained in paragraph 11 of the Foreword, Notes 7-11 to the Account disclose certain information relating to the Consolidated Fund on an accruals basis, to assist preparation of Whole of Government Accounts.

The National Loans Fund Account is prepared on an accruals basis and must give a true and fair view of the state of affairs of the Fund and the cash flows for the financial year.

HM Treasury has appointed the Permanent Secretary as Accounting Officer for the Accounts, with overall responsibility for the operation of the Funds, for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.

In preparing the Accounts the Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Accounts, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Government Accounting'.

Nicholas Macpherson 22 November 2005
Accounting Officer
HM Treasury

Statement on Internal Control

Scope of responsibility

As Accounting Officer for the Consolidated Fund and the National Loans Fund, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by the Treasury's Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. The Consolidated Fund and the National Loans Fund are managed generally within the framework of the Treasury's system of internal control. This framework includes resource allocation and utilisation and the management of risks across the Treasury's business. In addition, there are further controls that are specific to the management of the Consolidated Fund and the National Loans Fund, as detailed below.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ending 31 March 2005 and up to the date of the approval of the annual accounts, and accords with Treasury guidance. Within this overall departmental framework, the additional controls in place for the management of the Consolidated Fund and the National Loans Fund are set out below.

Capacity to handle risk

The management of the Consolidated Fund and the National Loans Fund and the supporting processes is based on a risk management strategy and clear segregation of duties within the Treasury.

Staff in Exchequer Funds and Accounts with responsibilities relating to the Consolidated Fund and the National Loans Fund are trained in a way appropriate to their responsibilities. Those involved in managing financial and other risks have their objectives set accordingly, including responsibility for relevant aspects of the control framework. Policy and procedures manuals as well as job instructions are maintained to ensure these staff carry out their work in a manner consistent with their responsibilities.

The risk and control framework

The key risks in managing the Consolidated Fund and National Loans Fund are

- incorrect accounting and irregularity of transactions;
- failure of IT systems;
- failure to provide an effective service in adverse circumstances, including disaster situations; and
- failure of principal counter-parties to provide agreed services.

Controls in 2004-2005

Existing internal controls to mitigate risks to the Consolidated Fund and the National Loans Fund include

- separation of duties among staff involved in the payments process to reduce the risk of fraudulent payments;
- authorisation processes that require dual approval of payment instructions issued to the Bank of England;
- computer-generated payment instructions derived from underlying transaction records, to minimise the risk of keying errors;
- the training of staff to do a range of jobs and periodically swap jobs to keep their knowledge up to date, to improve resilience in key areas;
- the authorisation of all payments from the Consolidated Fund and the National Loans Fund by the National Audit Office, as required by statute;
- reviews of key risks and assessment of their business impact;
- the maintenance of a Risk Register for operations relating to the Consolidated Fund and the National Loans Fund;
- business continuity plans, involving fully operational off-site back-up facilities, that are reviewed and tested periodically;
- the establishment with the NAO, of other measures that would allow essential payments business to continue in the event of the normal arrangements for granting credit being disrupted;
- the consolidation of the separate business continuity plans of each branch of the Exchequer Funds and Accounts Team into a single Team Plan and the development of further business continuity arrangements within the framework of the Treasury's corporate Business Continuity Plan facilities;
- the conduct of a risk awareness workshop for staff working on the Consolidated Fund and the National Loans Fund;
- the attendance by a member of staff of OGC-accredited extended training in Risk Management to strengthen the team's general capabilities in this area across all aspects of team business;
- an internal audit programme that includes reviews of the operations of the Consolidated Fund and the National Loans Fund;
- well developed Service Level Agreements (or similar understandings) with all principal counter-parties, covering financial relationships and requirements and standards for the interchange of information. These are reviewed regularly; and
- the implementation of a new computer system that incorporates more robust security features, with processes that improve resilience.

Plans for 2005-2006

In addition to the controls mentioned above, in the coming year I have plans for

- further development of business continuity plans, including reviewing inter-connections between principal business counter-parties;
- engaging external consultants to carry out a post-implementation review of EFA's new computer system; and
- further focus on enhancing risk awareness within the team through risk workshops, seminars and training.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports. I have been advised on the implications of the system of internal control by Exchequer Funds and Accounts officials and a plan to address continuous improvement of the system is in place.

Nicholas Macpherson 22 November 2005
Accounting Officer
HM Treasury

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

I certify that I have audited the financial statements on pages 10 to 18 under the National Loans Act 1968. These financial statements have been prepared on a cash basis under the accounting policies set out on page 11 and in the form prescribed by the Treasury.

Respective responsibilities of the Accounting Officer and the Auditor

As described on page 4, the Accounting Officer is responsible for the preparation of financial statements in accordance with Section 21 (1) of the National Loans Act 1968 and in such form the Treasury may prescribe. The Accounting Officer is also responsible for ensuring the regularity of financial transactions and the preparation of the Foreword and the Statement on Internal Controls. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments of the Consolidated Fund and associated balances held at the year end, whether they are properly prepared in accordance with Section 21 (1) of the National Loans Act 1968 and in the form prescribed by the Treasury, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 5 to 7 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Treasury's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

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 are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and 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.

Opinion

In my opinion

- the financial statements properly present the receipts and payments of the Consolidated Fund for the year ended 31 March 2005 and associated balances held at that date and have been properly prepared in accordance with Section 21 (1) of the National Loans Act 1968 and in the form prescribed by the Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

28 November 2005

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Part 1: Consolidated Fund – Account for Receipts and Payments in the year ended 31 March 2005

	Notes	**2004-2005**	2003-2004
Receipts		**£million**	£million
Tax revenue			
Inland revenue	2	**158,976**	145,556
Customs and excise	2	**120,924**	115,661
Vehicle excise duty	2	**4,751**	4,712
National non-domestic rates	2	**16,000**	16,579
		300,651	282,508
Other receipts			
Repayments from the contingencies fund		**1,500**	3,500
Miscellaneous	3	**12,673**	10,544
Deficit met from the national loans fund		**37,913**	42,222
Total receipts		**352,737**	338,774
Payments			
Supply services	4	**325,543**	313,072
Standing services			
Payments to the national loans fund for net interest payments		**16,966**	14,503
Payments to the European communities	5	**8,461**	7,496
Other standing services	6	**267**	203
		351,237	335,274
Issues to the contingencies fund		**1,500**	3,500
Total payments		**352,737**	338,774

Nicholas Macpherson 22 November 2005
Accounting Officer
HM Treasury

Notes to the Account

1 Statement of accounting policies

These accounts are prepared under section 21(1) of the National Loans Act 1968 and are prepared on a cash basis.

In addition, accruals-based disclosures are made at Notes 7-11 to assist preparation of Whole of Government Accounts. They are restricted to those items not disclosed in departmental resource accounts or elsewhere. These include pensions for Members of the European Parliament, pensions for Royal Household employees who entered employment before 31 March 2001, pensions for Parliamentary Officers for political and civil services provided, Civil List pensions and the UK's capital subscription to the European Investment Bank. These disclosures have been prepared on an accruals basis under the historical cost convention modified to account for the revaluation of investments. There is no direct read-across between Notes 7-11 and the Consolidated Fund receipts and payments account.

2 Tax revenue

Detailed breakdowns of tax revenues paid into the Consolidated Fund are set out in Trust Statements prepared by the receiving departments.

3 Miscellaneous receipts

	2004-2005 £000	2003-2004 £000
Receipts from estimates paid to the Consolidated Fund	**11,389,746**	8,172,771
Additional cash surrendered by departments	**0**	798,120
Independent television levies	**250,377**	275,273
United Kingdom coinage (Note 9)	**181,000**	222,000
Crown Estate surplus revenue	**183,400**	172,300
Over-issues of supply repaid	**396,927**	617,333
National Savings Bank ordinary account contribution for management expenses	**54,000**	54,000
Share of surplus accrued from securities for National Savings Bank	**53,625**	29,976
Crown's share of the Crown's nominee fund	**15,500**	13,132
Land Registry – dividend on public dividend capital	**22,847**	22,312
Insolvency Service – unclaimed dividends	**32,958**	3,295
Radio Authority	**11,630**	3,953
Gas levy	**60,000**	0
Miscellaneous	**20,446**	159,879
Total	**12,672,456**	10,544,344

4 Analysis of supply services

a) Supply services and repayments

	Note	**2004-2005 £000**	2003-2004 £000
Supply issues			
For current year		**325,046,455**	312,946,256
For previous years		**496,212**	125,669
		325,542,667	313,071,925
Prior year over-issues surrendered in cash	3	**(396,927)**	(617,333)
Net supply services		**325,145,740**	312,454,592

b) Analysis of supply services

In respect of financial year

		2004-2005 £000	2003-2004 £000	2002-2003 £000
Cash supply granted by Parliament		**339,832,025**	321,844,525	298,605,563
Total NCR out-turns reported by departments		**n.a.**	313,849,268*	288,927,330+
Surplus not required		**n.a.**	7,995,257	9,678,233
Financing in year				
2002-2003	Issues made in year	**0**	0	289,112,709
	Prior year issues applied to a subsequent year	**0**	0	2,045,478
	Prior year and current year over-issues surrendered in cash	**0**	0	(629)
2003-2004	Issues made in year	**0**	312,946,256	125,669
	Prior year issues applied to a subsequent year	**0**	1,738,564	(1,738,564)
	Prior year over-issues surrendered in cash	**0**	0	(617,333)
2004-2005	Issues made in year	**325,046,455**	496,212	0
	Prior year issues applied to a subsequent year	**934,837**	(934,837)	0
	Prior year over-issues surrendered in cash	**n.a.**	(396,927)	0
Total		**n.a.**	313,849,268	288,927,330

* Includes transitional adjustment of £5,763,000.

\+ Excludes £251,000 for machinery of government transfer.

n.a. Figures not available during 2004-2005. Figures will depend on audited resource accounts and the subsequent settlement activities to reconcile departments' positions with the Consolidated Fund.

5 United Kingdom contributions to the budget of the European Communities

Member States' contributions to the European Community Budget are made on the basis of the financing system set out in the Own Resources Decision which was agreed by all Member States and incorporated in UK law by virtue of the EC (Finance) Act 2001. The contributions relate to calendar years and are formula based using factors that are in many cases subject to periodic revision over a number of years as better information becomes available – for example, Gross National Product. Revisions to a Member State's contributions for a given year may therefore be made for several years. The amount included in the note as expenditure comprises the amount estimated to be payable for the financial year plus an adjustment for earlier years based on the latest estimate of the contribution for those years.

The Own Resources Decision provides for the Community Budget to be financed by own resources consisting of

i customs duties, including those on agricultural products;

ii sugar levies;

iii VAT, which is the application of a uniform rate, not exceeding 1 per cent, to a harmonised expenditure base, which must not exceed 0.5% of GNP of any Member State; and

iv a 'fourth' resource based on Member States' shares in Community GNP. The rate of this GNP based resource is whatever is required, given all other revenue, to balance the Budget.

The UK's abatement is calculated in accordance with the formula set out in the Own Resources Decision. It is equal to 66% of the difference in the previous year between what the UK would have paid if the Community Budget had been financed entirely by VAT (but excluding the UK's contribution to expenditure outside the Community, mainly aid) and the UK's receipts from the Budget.

Member States' budget contributions are subject to revision over several years, particularly as revised estimates of GNP and VAT become available.

	2004-2005			2003-2004
	Contribution for year ended 31 March 2005	**Adjustment of prior years' contributions**	**Total**	Total
	£000	**£000**	**£000**	£000
Customs duties	1,633,404	0	**1,633,404**	1,459,687
Sugar levies	16,582	0	**16,582**	13,323
VAT contribution (before abatement)	1,879,147	25,071	**1,904,218**	2,575,704
Fourth resource contributions	8,654,202	(15,897)	**8,638,305**	7,315,147
	12,183,335	9,174	**12,192,509**	11,363,861
Less UK abatement	(3,721,973)	(9,811)	**(3,731,784)**	(3,867,600)
	8,461,362	(637)	**8,460,725**	7,496,261

In addition to annual contributions to the Budget of the European Communities, the Consolidated Fund also bears the cost of capital subscriptions to fund the European Investment Bank. These are detailed at Note 10.

6 Other consolidated fund standing services payments

	Notes	**2004-2005**	2003-2004
		£000	£000
Civil list, annuities and pensions			
Civil List payments		**7,900**	7,900
Annuities to the Royal Family		**1,035***	1,064
Civil List annuities		**636**	636
Royal Household pensions scheme	7d	**2,934**	3,107
Pensions, etc for Judicial Services		**34,092**	30,540
Other pensions	7d, 8	**2,326**	1,273
Salaries and allowances			
Courts of Justice		**127,635**	120,106
Members of the European Parliament		**5,091**	5,319
Other		**1,266**	1,260
Miscellaneous services			
Election and referendum expenses		**68,420**	15,151
Royal Mint		**8,348**	11,246
Other		**7,216**	5,623
Total		**266,899**	203,225

* Following the death of HRH Princess Alice, Duchess of Gloucester, on 29 October 2004 the sum of £7,717.74 was reimbursed to the Consolidated Fund.

7 Unfunded pension arrangements

The Consolidated Fund pays as a Standing Service the pension benefits of those Royal Household (RH) employees who entered employment before 31 March 2001 under the Royal Household Pension Scheme, and the pension benefits of Members of the European Parliament (MEPs) under the European Parliament (UK Representatives) Pension Scheme. Pension benefits are based on final pensionable salary and the following data for pension liabilities which are accounted for as unfunded defined benefit arrangements is in accordance with FRS 17 – Retirement Benefits. The liabilities are measured on an actuarial basis using the projected unit method and discounted using an assumed long-term real rate of return expected to be earned on long-dated index-linked gilts. The rate is determined by the Government Actuary's Department and is subject to review.

a) Actuarial assessment assumptions

A full actuarial assessment was carried out for both schemes as at 31 March 2005 by the Government Actuary's Department. The major assumptions used by the actuary were

	At 31 March 2005	At 31 March 2004
	%	%
Rate of increase in salaries	**4.0**	3.9
Rate of increase in pension payments (RHPS)	**2.5**	2.4
Discount rate	**6.1**	6.0
Inflation assumption	**2.5**	2.4

b) 2004-2005 expenditure and income

	2004-2005 Royal household £000	2004-2005 MEPs £000	2004-2005 Total £000	2003-2004 Total £000
Expenditure				
Current service costs	**1,300**	**1,200**	**2,500**	2,300
Past service costs	**0**	**(150)**	**(150)**	0
Interest on scheme liability	**3,100**	**1,340**	**4,440**	3,860
Total expenditure	**4,400**	**2,390**	**6,790**	6,160
Income				
Pension contributions receivable:				
Employers (ASLCs)	**899**	**0**	**899**	977
Employees (WPS contributions)	**148**	**441**	**589**	671
Total income	**1,047**	**441**	**1,488**	1,648
Net expenditure	**3,353**	**1,949**	**5,302**	4,512

c) Movement in liabilities during the year

	Royal household £000	2004-2005 MEPs £000	Total £000	2003-2004 Total £000
Liability in scheme at beginning of the year	**(51,800)**	**(21,940)**	**(73,740)**	(65,280)
Current service cost	**(1,300)**	**(1,200)**	**(2,500)**	(2,300)
Benefit payments	**2,900**	**850****	**3,750**	3,870
Past service cost	**0**	**150**	**150**	0
Other finance charges - interest	**(3,100)**	**(1,340)**	**(4,440)**	(3,860)
Total	**(53,300)**	**(23,480)**	**(76,780)**	(67,570)
Actuarial gain/loss	**(10,100)**	**(540)**	**(10,640)**	(6,170)
Liability at end of year	**(63,400)**	**(24,020)**	**(87,420)**	(73,740)

* Figure excludes one-off resettlement grant sum of £728,909.81 in respect of those MEPs who lost their seat at the 2004 European Elections. Also includes transfer value paid into the Consolidated Fund for the sum of £240,612.85.

The full actuarial assessment for the RH Pensions Scheme showed an increase in pension liabilities from £51,800,000 to £63,400,000. The most significant contribution to this increase is the actuarial loss, reflecting a more comprehensive assessment using full membership data and updated actuarial assumptions, in particular of continuing improvement to mortality rates.

The full actuarial assessment for the European Parliament (UK Representatives) Pensions Scheme showed an increase in pension liabilities from £21,940,000 to £24,020,000.

d) Analysis of pension benefits paid by the Consolidated Fund

This table provides details of the cash payments paid by the Consolidated Fund in relation to Royal Household and MEPs' pensions as disclosed above. The pension increase element of MEPs' pensions is borne on the Civil Service Superannuation Resource Account.

		2004-2005		2003-2004
	Royal household	**MEPs**	**Total**	Total
	£000	**£000**	**£000**	£000
Total pension paid	**2,615**	**865**	**3,480**	3,204
Commutation and lump sum benefits	**319**	**349**	**668**	774
Resettlement grants	**-**	**729**	**729**	-
Total pension benefits paid	**2,934**	**1,943**	**4,877**	3,978
Less increase element of MEPs' pensions borne by the Civil Superannuation Resource Account	**-**	**(124)**	**(124)**	(105)
Total borne by the consolidated fund	**2,934**	**1,819+**	**4,753**	3,873

\+ Figure includes one-off resettlement grant sum of £728,909.81 in respect of those MEPs who lost their seat at the 2004 European Elections. Also excludes transfer value paid into the Consolidated Fund for the sum of £240,612.85.

e) Analysis of actuarial loss on unfunded pension schemes

		2004-2005		2003-2004
	Royal household	**MEPs**	**Total**	Total
	£000	**£000**	**£000**	£000
(Gains) and losses arising on scheme liabilities	**1,700**	**(40)**	**1,660**	1,480
Changes in assumptions underlying the present value of liabilities	**8,400**	**580**	**8,980**	4,690
Total	**10,100**	**540**	**10,640**	6,170

8 Other pensions

In addition to the pensions described in Note 7, the Consolidated Fund also makes payments in relation to: – i pensions in respect of higher judicial services; ii pensions for Parliamentary Officers for political and civil services provided; and iii Civil List pensions. FRS 17 disclosures have not been provided for these payments for the reasons given below.

Pensions in respect of higher judicial services – Liabilities in respect of this scheme are included in the Judicial Pensions Scheme resource account.

Pensions for Parliamentary Officers for political and civil services provided - relate to pensions for former Prime Ministers, Speakers, Comptroller and Auditor Generals and Parliamentary Commissioners. In total, a sum of £379,000 was paid from the Consolidated Fund in 2004-2005 in respect of these pensions (£388,000 in 2003-2004). The actuarial liability falling on the Consolidated Fund, across all these schemes, has been assessed at £6.5 million at 31 March 2005 (£6.6 million at 31 March 2004).

Civil List 'pensions' – these are not pensions in the accepted sense. They represent 'awards' for distinguished service to the arts and science and are payable for the life of the recipient. As there is no basis for accruing pension entitlement it is judged that they do not come within the scope of FRS 17 – Retirement Benefits.

In all the cases above, the sums involved are not material in the context of this account.

9 Coinage issued and redeemed

The face value of coins issued by the Royal Mint is payable to the Consolidated Fund and the face value of coins redeemed by the Royal Mint is a charge on the Consolidated Fund. The cost of minting the coinage is charged to the Treasury's Resource Account (£34.343 million in 2004-2005 and £33.029 million in 2003-2004).

	2004-2005	2003-2004
	£000	£000
Coins issued	**181,000**	222,000
Coins redeemed	**(9,586)***	(10,657)
Net income	**171,414**	211,343

* This differs from the amount paid to the Royal Mint shown in Note 6 because of timing differences between the redemption of coins and the related payments from the Consolidated Fund.

10 Fixed asset investments

a) European Investment Bank

Section 3 of the European Communities Act 1972 provides for payments in respect of the capital or reserves of the European Investment Bank, or in respect of loans to the European Investment Bank, to be made from the Consolidated Fund.

The UK's interest in the European Investment Bank is a fixed asset investment. The Bank's capital has been provided through subscriptions by EU Member States, broadly in proportion to the Gross National Product of the individual countries. The aim is to further the objectives of the European Union by making long-term finance available for investment projects.

The UK's share of subscribed capital was 16.28% (€4,676,024,000) at 31 March 2005 (17.77% €4,430,687,000 at 31 March 2004). The investment is revalued each year at the UK's share of the net assets of the Bank as reported in the Bank's accounts to 31 December of the previous year.

	2004-2005	2003-2004
	£000	£000
At 1 April	**2,949,858**	2,881,193
Change	**265,376**	68,665
At 31 March	**3,215,234**	2,949,858

b) Land Registry Public Dividend Capital

Balance at 1 April	**61,545**	61,545
Additions	**0**	0
Disposals	**0**	0
Balance at end of year	**61,545**	61,545
Total fixed asset investments at end of year	**3,276,779**	3,011,403

11 Contingent liabilities

There are a number of contingent liabilities that could fall directly on the Consolidated Fund. Some of these are already reported in resource accounts, so are not repeated here to avoid duplication. Other such contingent liabilities (previously reported in Table B14 of the Supplementary Statements to the CF and NLF Accounts) were as follows

	At 31 March 2005	At 31 March 2004
	£m	£m
EC Budget: Guarantees on borrowing and lending operations	**1,890.9***	1,751.9+
EC Budget: Emergency aid reserve	**27.2**	25.7
European Investment Bank: Callable capital subscription	**17,407.3**	16,854.9
UK coinage	**3,533.7**	3,420.9

* €2,750 million (as evaluated at June 2004), converted to £ sterling at the exchange rate prevailing at 31 March 2005.

\+ €2,631 million (as evaluated at December 2003), converted to £ sterling at the exchange rate prevailing at 31 March 2004.

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

I certify that I have audited the financial statements on pages 21 to 33 under the National Loans Act 1968. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments and the accounting policies set out on page 24 and in the form prescribed by the Treasury.

Respective responsibilities of the Accounting Officer and the Auditor

As described on page 4, the Accounting Officer is responsible for the preparation of financial statements in accordance with Section 21 (1) of the National Loans Act 1968 and in such form the Treasury may prescribe. The Accounting Officer is also responsible for ensuring the regularity of financial transactions and the preparation of the Foreword and the Statement on Internal Controls. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view, whether they are properly prepared in accordance with Section 21 (1) of the National Loans Act 1968 and in the form prescribed by the Treasury, and whether in all material respects the expenditure and income have been applied to the purpose intended by Parliament and conform to the authorities which govern them. I also report, if in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 5 to 7 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Treasury's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the transactions with investors included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate, 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the 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.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Loans Fund as at 31 March 2005 and of the net operating cost and cash flows for the year then ended; and have been properly prepared in accordance with Section 21 (1) of the National Loans Act 1968 and in the form prescribed by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

28 November 2005

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

Part II: Operating cost statement for the year ended 31 March 2005

	Notes	**2004-2005**	2003-2004
		£m	£m
Finance costs of borrowing	2	**27,313**	24,836
Income from lending operations	3	**(5,008)**	(5,528)
(Gains)/losses on foreign exchange transactions	4	**(20)**	42
Other expenditure	5	**17**	29
Other income	5	**(1,814)**	(2,188)
Net operating cost		**20,488**	17,192

Balance Sheet at 31 March 2005

	Notes	**2004-2005**	2003-2004
		£m	£m
Assets			
Loans	6	**2,910**	2,963
IMF quota subscription	7	**8,616**	8,697
Advances	8	**63,013**	77,138
Debtors	9	**896**	899
Other assets	10	**622**	628
Total assets		**76,057**	90,325
Liabilities			
Creditors	11	**(5,322)**	(5,089)
Other debt payable in sterling	12	**(73,612)**	(84,356)
Other debt payable in foreign currencies	13	**(1,731)**	(1,870)
National savings and investments products	14	**(67,256)**	(64,646)
Liabilities to the IMF	7	**(5,856)**	(5,245)
Gilt-edged stock	15	**(376,795)**	(342,199)
Total liabilities		**(530,572)**	(503,405)
Net liabilities		**(454,515)**	(413,080)
Liability of the Consolidated Fund to the National Loans Fund	**16**	**454,515**	413,080

Nicholas Macpherson
Accounting Officer
HM Treasury

22 November 2005

Cash Flow Statement for the year ended 31 March 2005

	Notes	**2004-2005** **£m**	2003-2004 £m
Net cash inflow from operating activities	17 i	**447**	1,031
Net cash inflow from financial investment	17 ii	**14,180**	(4,353)
Financing	17 iii	**(14,627)**	3,322
Net cashflow		**0**	0

The notes on pages 24 to 33 form part of these financial statements.

Notes to the Accounts

1 Accounting policies

i Accounting convention

The National Loans Fund financial statements have been prepared under the historical cost convention modified by the inclusion of certain investments at valuation and in accordance with applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the National Loans Fund. Accounting policies have been applied consistently throughout the year.

ii Basis of consolidation

These financial statements consolidate the results and transactions of the National Loans Fund and National Savings and Investments products with the exception of the Ordinary Savings Account, which is not a liability of the National Loans Fund.

iii Loans, advances and other debtors

Loans, advances and other debtors are recorded at the nominal value of the amounts due to the National Loans Fund.

iv Borrowings

Borrowings are stated at the amount of nominal value adjusted for the unamortised portion of premium or discount where net proceeds of borrowing differ from the nominal value of borrowing. Amounts due at maturity in respect of index-linked gilt-edged securities and fixed interest investment products are capitalised and the capital uplift added to the nominal value of the borrowing.

v Income recognition

Income is recognised in the period in which it is earned.

vi Finance costs

Finance costs, which include Premium Bond prizes, are recognised in the period to which they relate. Finance costs that are contingent on movements in the relevant indices are recognised in relation to the change in the index for the period.

vii Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange applicable to the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

viii Administration expenditure

These financial statements reflect the activity through, and the financial position of, the National Loans Fund. The costs of gilts registration, listing fees and of foreign currency debt issuance are met by the National Loans Fund. Administration and staffing costs are borne by HM Treasury and are accounted for through HM Treasury's resource accounts.

2 Finance costs on borrowing

	2004-2005 £m	2003-2004 £m
Gilt-edged stock		
Marketable	**20,233**	19,004
Non marketable	**999**	1,348
Total	**21,232**	20,352
National Savings and investments products	**2,358**	1,923
Other finance costs		
Payable in sterling	**3,682**	2,528
Payable in foreign currencies	**41**	33
Total	**3,723**	2,561
Total finance costs on borrowing	**27,313**	24,836

3 Income from lending operations

	2004-2005 £m	2003-2004 £m
Interest on loans advanced by the National Loans Fund to		
Public Corporations	**215***	165
Central Government bodies	**121**	127
	336	292
Interest on loans advanced through the Public Works Loan Board	**3,084**	3,942
Interest on funding advanced to the Debt Management Account	**1,588**	1,294
Total income from lending operations	**5,008**	5,528

* This includes a premium of £119,673,588 in respect of the premature redemption of Scottish Homes' loans.

4 (Gains) and losses on foreign exchange transactions

	2004-2005 £m	2003-2004 £m
(Gains)/Losses on foreign currency borrowing		
Canadian Dollar	**2**	(2)
US Dollar	**(52)**	(204)
	(50)	(206)
(Gain)/loss on Reserve Tranche Position at the IMF	**30**	248
Net (gain)/loss on foreign currency transactions	**(20)**	42

5 Other income and expenditure

	2004-2005	2003-2004
	£m	£m
Other expenditure		
Debt management administration costs*	**7**	7
Expenditure in respect of depreciation of Issue Department assets+	**8**	20
3.5% Conversion Loan sinking fund	**2**	2
Total other expenditure	**17**	29
Other income		
Income receivable in respect of appreciation of Issue Department assets+	**(16)**	(9)
Surplus sterling from EEA	**(100)**	(970)
Profits of the Bank of England Issue Department+	**(1,632)**	(1,248)
Surplus on the Debt Management Account	**(55)**	49
Written off gilt-edged stock	**(3)**	(2)
Miscellaneous receipts	**(8)**	(8)
Total other income	**(1,814)**	(2,188)
Net total	**(1,797)**	(2,159)

* Debt management administration costs comprise amounts paid to the Gilts Registrar mainly for administering the gilt-edged stock register. They also include the cost of issue of foreign currency borrowing.

\+ The Bank of England Issue Department is required by the Currency and Bank Notes Act 1928 to hold investments equal to the value of bank notes in issue. Periodically these investments are revalued to market value. If the market value is less than the value of notes in issue, legislation requires the National Loans Fund to pay an amount equal to the deficiency to the Issue Department to finance the purchase of additional investments. Conversely, if the market value of the assets exceeds the value of the notes in issue, the Issue Department sells investments to the value of the surplus and pays the proceeds to the National Loans Fund. The amount payable by the NLF for the year (£9 million) was charged to the Operating Cost Statement. The amount receivable by the NLF (£16 million) was credited to the operating cost statement. In addition, under section 9 of the National Loans Act 1968, the profits of the Issue Department are paid into the National Loans Fund. A sum of £1,632 million in respect of these profits was credited to the Operating Cost Statement in 2004-2005.

The National Loans Fund has a contingent liability to the Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This contingent liability was £23,540 million at 31 March 2005.

6 Loans

	Public Corporations	**Central Government**	**Total**
	£m	**£m**	**£m**
Outstanding at 1 April 2004	1,537	1,426	2,963
Loans advanced	163	172	335
Loans repaid	(284)	(104)	(388)
Outstanding at 31 March 2005	**1,416**	**1,494**	**2,910**

7 IMF Reserve Tranche Position

The United Kingdom Quota Subscription to the IMF is 10,738.5 million Special Drawing Rights (SDRs) (£8,616 million at 31 March 2005). Part of the Subscription is deposited in the NLF in return for non-interest-bearing securities. A small undrawn sterling cash balance is held at the Bank of England. The difference between the gross quota subscription and the NLF's sterling liability to the IMF is the UK's Reserve Tranche position.

		Liabilities				
	IMF Quota Subscription Asset	**Non- interest - bearing securities**	**Sterling balances at Bank of England**	**Valuation adjustment**	**Total liabilities**	**Reserve Tranche Position**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Balances at 1 April 2004	8,697	(5,582)	(22)	359	(5,245)	3,452
Exchange rate gains/(losses) for the year on						
Quota subscription	(81)					(81)
Change in year-end valuation adjustment				(249)	(249)	(249)
Change in loan notes as a result of the valuation settlement		299			299	299
Change in cash on No 1 account			0		0	0
Cash subscribed to the IMF						
Other changes in loan notes		(661)			(661)	(661)
Balances at 31 March 2005	**8,616**	**(5,944)**	**(22)**	**110**	**(5,856)**	**2,760**

8 Advances

	PWLB	**DMA**	**EEA**	**Total**
	£m	**£m**	**£m**	**£m**
Outstanding at 1 April 2004	41,468	35,000	670	77,138
Advances	5,822	0	1,990	7,812
Advances repaid	(5,187)	(15,000)	(1,750)	(21,937)
Outstanding at 31 March 2005	**42,103**	**20,000**	**910**	**63,013**

9 Debtors

	At 31 March 2005	At 31 March 2004
	£m	£m
Debt management account surplus	**143**	88
Accrued interest on DMA funding advance	**122**	119
Accrued interest on PWLB loans	**598**	652
Accrued interest on NLF loans	**33**	40
Total debtors	**896**	899

10 Other assets

	At 31 March 2005	At 31 March 2004
	£m	£m
National savings and investments' cash holdings		
from sale of investment products	**384**	389
for repayment of principal	**202**	206
for payment of interest	**14**	11
Total	**600**	606
Reserve Tranche sterling balances at Bank of England	**22**	22
	622	628

11 Creditors

	At 31 March 2005	At 31 March 2004
	£m	£m
National Savings and Investments interest and prizes	**114**	84
NS&I accrual of interest to be capitalised	**751**	629
Accrued interest on gilt-edged securities	**4,110**	4,067
Accrued interest on borrowing payable in sterling		
DMO ways and means	**233**	193
BoE ways and means	**54**	46
Accrued interest on certificates of tax deposit	**23**	32
Other	**10**	10
Accrued interest on loans payable in foreign currency	**27**	28
Total creditors	**5,322**	5,089

12 Other debt payable in sterling

	At 31 March 2005	At 31 March 2004
	£m	£m
Debt management account	**50,912**	60,116
Bank of England Issue Department	**13,370**	13,370
Balances in government accounts at the Bank of England	**8,288**	8,844
Temporary deposit facility	**692**	1,620
Other	**350**	406
	73,612	84,356

13 Other debt payable in foreign currencies

	At 31 March 2005	At 31 March 2004
	£m	£m
US Dollar	**1,703**	1,828
Euro	**2**	2
Canadian Dollar	**26**	40
Total foreign currency debt	**1,731**	1,870

14 National Savings and Investments products

	2004-2005	2003-2004
	£m	£m
Principal outstanding at 1 April	**64,646**	60,896
Cash repayments from the NLF	**(9,091)**	(9,316)
Principal cash received in the NLF	**10,689**	11,873
Interest and other returns accruing to savers capitalised	**1,021**	1,065
Change in cash holdings for principal	**(9)**	128
Principal outstanding at 31 March	**67,256**	64,646

15 Gilt-edged stock*

	At 31 March 2005 Conventional stock nominal	**At 31 March 2005 Index-linked stock: Uplifted nominal**	**At 31 March 2005 Unamortised (Discount) /Premium**	**At 31 March 2005 Outstanding liability**
	£m	**£m**	**£m**	**£m**
Marketable securities up to 5 years	98,679	12,824	80	111,583
Marketable securities from 5 to 15 years	83,877	39,850	(300)	123,427
Marketable securities over 15 years	81,748	35,602	2,090	119,440
Undated marketable securities	2,966	-	-	2,966
Non-marketable securities	18,074	863	442	19,379
Total gilt-edged stock	**285,344**	**89,139**	**2,312**	**376,795**

* The NLF has a contingent liability in respect of unclaimed dividends. This stood at £44.1m at 31 March 2005.

16 Liability of the Consolidated Fund to the National Loans Fund

	2004-2005	2003-2004
	£m	£m
Liability of the Consolidated Fund to the NLF at 1 April	413,080	368,168
Net cash paid to the Consolidated Fund	37,913	42,222
Payment from the Consolidated Fund to the NLF for the cost of debt servicing during the year	(16,966)	(14,502)
Other net movements	20,488	17,192
Liability of the Consolidated Fund to the NLF at 31 March*	454,515	413,080

* By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund.

17 Notes to the cash flow statement

i Net cash inflow from operating activities

	2004-2005 £m	2003-2004 £m
Interest received	**5,066**	5,559
Other receipts	**1,740**	2,206
Finance costs on borrowing	**(23,623)**	(21,915)
Other flows	**298**	678
Transfer from the consolidated fund for the cost of debt servicing	**16,966**	14,503
Total net cash inflow from operating activities	**447**	1,031

ii Net cash inflow/(outflow) from financial investment

	2004-2005 £m	2003-2004 £m
Net change in advance to the Debt Management Account	**15,000**	(7,000)
Net change in advance to the Public Works Loan Board	**(634)**	3,172
Net change in loans	**54**	115
Net change in advance to the EEA	**(240)**	(640)
Total net cash inflow/(outflow) from investing activities	**14,180**	(4,353)

iii Financing

	2004-2005 £m	2003-2004 £m
Net issuance of government stock	**32,160**	18,134
Net issuance of National Savings instruments	**1,598**	2,557
Other net sterling borrowing	**(10,745)**	22,933
Net foreign currency borrowing	**273**	1,920
Net transfer to the consolidated fund	**(37,913)**	(42,222)
Total net cash inflow/(outflow) from financing activities	**(14,627)**	3,322
Total net cashflow	**(0)**	0

18 Financial risks related to the NLF

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

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

Issues considered in pursuing this objective include:

- pursuing a debt issuance policy that is open, transparent and predictable;
- adjusting the nature and maturity of the government's debt portfolio, by means of the maturity and composition of debt issuance and other market operations including switch auctions, conversion offers and buy-backs;
- issuing gilts that achieve a benchmark premium and developing a liquid and efficient gilt market; and
- taking account of the Government's own appetite for risk, both nominal and real.

Through these means, the government seeks to choose a strategy that minimises the expected average debt cost over the longer term, and ensures that the chosen one is robust against different economic outturns.

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

The National Loans Fund's liabilities include conventional and index-linked gilt-edged securities and a wide range of National Savings and Investments products. There is a wide spread of maturities. NLF liabilities also include some foreign currency debt and deposits from several other public sector accounts.

NLF assets include advances to the Public Works Loan Board and the Debt Management Account. The UK's gross subscription to the IMF is also an asset of the National Loans Fund, and is denominated in Special Drawing Rights (SDRs).

Set out below are certain risk factors which could affect the National Loans Fund's operations.

Interest rate and foreign currency risks

The NLF's liabilities have a range of interest rate arrangements. Some borrowing and lending is at variable rate, while other assets and liabilities have fixed, or zero, interest rates. The interest paid (and redemption sums) on index-linked gilts vary in line with changes in the Retail Price Index since the initial issue of each stock. National Savings and Investments product liabilities and the assets represented by Public Works Loan Board lending can be at variable or fixed interest rates.

A small portion of the NLF's assets and liabilities are denominated in foreign currencies.

The following analyses set out the interest rate and foreign currency characteristics of NLF assets and liabilities.

NLF liabilities: Interest rate and foreign currency analysis at 31 March 2005

Currency	Total	Variable liabilities	Fixed rate rate	Zero- rated*	Fixed rate borrowing: Weighted average interest rate	Fixed rate borrowing: Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	%	Years
Sterling debt	517,663	206,628	303,715	7,320	5.9	10.4
Debt in foreign currency						
US$	1,703		1,703		2.2	3.1
€	2		2		7.0	1.7
Canadian $	26		26		2.0	1.1
IMF liabilities+	5,856			5,856		
Total liabilities	**525,250**	**206,628**	**305,446**	**13,176**	**5.9**	**10.4**

* It is not possible to calculate a weighted time to maturity for zero-rated liabilities as there is no defined term. They are treated as maturing in less than one year in the analysis by maturity band.

\+ Liabilities to the IMF are denominated in sterling, but are subject to a revaluation adjustment reflecting the SDR/£ sterling exchange rate movement.

NLF assets: Interest rate and foreign currency analysis at 31 March 2005

Asset type	Total	Variable liabilities	Fixed rate rate	Zero- rated*	Weighted average interest rate	Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	%	Years
Loans	2,910		2,910		7.28	15.58
IMF quota subscription (SDR)	8,616			8,616		
Advances	63,013	20,572	41,498	943	6.62	20.5
Other assets	622			622		
Total assets	**75,161**	**20,572**	**44,408**	**10,181**	**6.66**	**20.18**

* It is not possible to calculate a weighted time to maturity for zero-rated assets as there is no defined term.

Liquidity risk

NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments across a wide time period into the future. The longest stock in existence at 31 March 2005 matures in 2038. A small number of stocks are undated. Deposits in the NLF have a shorter maturity profile, since they can change on demand. However, in practice, balances change only slowly due to re-investment.

The following table shows an analysis of the maturities of NLF liabilities.

Maturity profile for liabilities

	At 31 March 2005 £m	At 31 March 2004 £m
Within one year/on demand	**165,364**	178,637
Between one and two years	**37,977**	17,093
Between two and five years	**73,882**	80,282
Over five years	**248,027**	222,304
Total	**525,250**	498,316

Credit risk

In respect of loans financed by the NLF, the financial relationship with the borrower is managed by the responsible department in respect of loans to public corporations, and by the Public Works Loan Board for loans to Local Authorities.

In the context of NLF loans issued to trading organisations at market rates, under the commercial lending policy, the terms and interest rates applied take account of a credit assessment of the borrower which is reviewed periodically by the responsible department.

Ceilings on total lending from the NLF to specific bodies are prescribed in statute. The PWLB is allowed to lend up to an aggregate amount of £55 billion. For short-term lending to public bodies, the maximum exposure of the NLF is determined by prescribed credit ceilings appropriate for the circumstances of the body.

Derivatives and hedging

The NLF itself does not use derivatives or hedging. However, as explained in more detail below, some of the risks on the NLF are offset by hedging and other activities of the Debt Management Account and the Exchange Equalisation Account.

National Savings & Investments have issued a number of Guaranteed Equity Bonds that expose the NLF to equity index risk. The Debt Management Office have hedged this exposure through derivatives that are held on the DMA. For the government overall (and the NLF) this ensures that the risk is negated. The Exchange Equalisation Account Act does not permit the Exchange Equalisation Account to borrow. Where the foreign currency reserves are financed by foreign currency liabilities, the debt is issued by and is an obligation of the NLF. The foreign currency raised is transferred to the EEA in return for payment in sterling. The NLF's foreign currency liability to the market is hedged by a foreign currency asset on the EEA.

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DG Ref: A24284 5847RC

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
02/2006

Published by TSO (The Stationery Office) and available from:

Online
www.tso.co.uk/bookshop

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ISBN 0-10-328593-8

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