

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

Consolidated Fund Account 2008-2009

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Consolidated Fund Account 2008-2009

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on behalf of Parliament.

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Foreword

1. 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.
2. 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 within the CF. The accounts for the CF and NLF are now published separately.
3. 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 central government's current account, whereas the NLF can be regarded as central government's main borrowing and lending account. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF.

Scope of the Consolidated Fund Account

4. 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.
5. The receipts of the CF mainly consist of
 - tax revenues such as those collected by Her Majesty's Revenue and Customs (HMRC);
 - other receipts paid over by departments known as Consolidated Fund Extra Receipts (CFERs);
 - repayments from the Contingencies Fund; and
 - balancing payments from the NLF when daily payments by the CF exceed its receipts.
6. The payments from the CF are mainly for
 - Supply Services, which are payments issued to Government departments to finance their expenditure. These are approved annually by Parliament in a vote on the spending Estimates submitted to it by the Government. The departments then use the cash for the purposes approved by Parliament.
 - Standing Services, which are charges exempt from any need to be voted annually by Parliament because it has, by statute, permanently authorised the payments. These include, for example, the salaries of members of the judiciary, expenses of holding general elections, United Kingdom contributions to the budget of the European Communities, and a new Standing Service in 2008-2009 for financial assistance payments (see below).
 - Issues to the Contingencies Fund; and
 - Balancing payments to the NLF when daily receipts into the CF exceed its payments.

The NAO bears the cost of all external audit work performed on the Consolidated Fund.

New Standing Service

7. During 2008-2009 the Banking Act 2009 was passed by Parliament and a new power was given to the Consolidated Fund as part of the Treasury support for banks legislated in the Act. The Treasury can make a payment in respect of providing financial assistance to or in respect of a bank or other financial institution directly from the Consolidated Fund if the Treasury is satisfied that the need for expenditure is too urgent to permit arrangements to be made for the provision of money by Parliament, although Parliament must be

informed as soon as is reasonably practicable. During the year £1.6 billion was paid from the Consolidated Fund to HM Treasury in connection with providing financial assistance to the Dunfermline Building Society as announced by the Chancellor on 30 March 2009. This payment will be brought to account in HM Treasury's resource accounts as non-voted capital expenditure. Details of HM Treasury's activity on this and other financial sector interventions can be found on its website at www.hm-treasury.gov.uk and in its 2008-2009 Annual Report and Resource Accounts.

Summary of Outturn for 2008-2009

8. The outturn for the year shows payments and receipts of £560.3 billion (2007-2008 - £434.8 billion), including £165.5 billion (2007-2008 - £49.0 billion) from the NLF to cover what would have been the deficit for the year. Net underlying payments made by the CF can be determined by excluding the impact of advances to HMRC to cover daily revenue shortfalls, as described in note 2 (since this artificially inflates both receipts and payments), and also transactions with the Contingencies Fund and transfers to and from the NLF, as shown in the table below. Total underlying receipts decreased by 1.9 per cent from £378.5 billion to £371.3 billion, whilst underlying payments increased by 26.4 per cent from £408.1 billion to £515.8 billion. This caused underlying net payments to rise from £29.6 billion to £144.5 billion. In addition, the payments made by the CF to meet the NLF's net interest payments increased from £19.4 billion to £21.0 billion. As a result, the net deficit on the CF, which was financed by transfers from the NLF, increased from £49.0 billion to £165.5 billion, an increase of £116.5 billion. Details are shown in the following table.

| | 2008-2009 £ billion | 2007-2008 £ billion |
|---|------------------------|------------------------|
| Total receipts | 560.3 | 434.8 |
| less: advances to HMRC in support of revenue | (11.5) | (4.3) |
| less: repayments from Contingencies Fund | (12.0) | (3.0) |
| less: NLF funding | (165.5) | (49.0) |
| Underlying receipts | 371.3 | 378.5 |
| <i>Comprising</i> | | |
| Net HMRC revenue | 323.6 | 337.7 |
| Other tax revenue | 25.6 | 24.3 |
| Other receipts | 22.1 | 16.5 |
| Total underlying receipts | 371.3 | 378.5 |
| Total Payments | 560.3 | 434.8 |
| less: advances to HMRC in support of revenue | (11.5) | (4.3) |
| less: issues to the Contingencies Fund | (12.0) | (3.0) |
| less: payments to NLF for net interest | (21.0) | (19.4) |
| Underlying payments | 515.8 | 408.1 |
| <i>Comprising</i> | | |
| Supply Services | 506.4 | 398.1 |
| Standing Services (net of HMRC advances and payments to NLF for net interest) | 9.4 | 10.0 |
| Total underlying payments | 515.8 | 408.1 |
| Net underlying payments | 144.5 | 29.6 |
| Payments to NLF for net interest | 21.0 | 19.4 |
| Deficit met by NLF | 165.5 | 49.0 |

9. The increase in the deficit of £116.5 billion was largely the result of an increase in Supply payments to government departments of £108.3 billion. Other contributing factors were a fall in tax receipts of £12.8 billion, which has been partly offset by an increase in other receipts of £5.6 billion. Supply payments to government departments increased generally, but the most significant increase was to HM Treasury, which increased by £88.7 billion in 2008-2009. This was due to a number of financial sector interventions including the Government's investments in Royal Bank of Scotland and the Lloyds Banking Group and support provided in respect of Bradford & Bingley, Northern Rock and other financial institutions. This is in addition to the £1.6 billion paid under the new Standing Service. As already noted, further details of how HM Treasury used the cash issued to it from the CF can be found at the references in paragraph 7. Other significant year-on-year increases in Supply issued to government departments include £4.1 billion for the Department of Work and Pensions, £3.8 billion for the Department for Communities and Local Government and £2.6 billion for the Ministry of Defence. Other government departments contributed £9.1 billion to the increase. Further details of how supply has been spent can be found in each of the departmental resource accounts.
10. Other receipts increased by £5.6 billion mainly because of £4.3 billion higher Consolidated Fund Extra Receipts (CFERs) and a one-off receipt of £1.4 billion for Supply returned to the Consolidated Fund following a Machinery of Government change. The increase in CFERs is predominantly due to an increase in the Treasury's receipts paid to the Consolidated Fund of £6.3 billion which has been generated from interventions in the financial sector. Further information on these interventions can be found in the Treasury's resource accounts. This has been partly offset by a reduction in the Export Credit Guarantee Department's (ECGD) receipts of £1.1 billion due to a decrease in recoverable claims. The Machinery of Government change created the new 2008-2009 Supply net cash requirement (NCR) of the Department of Energy and Climate Change (DECC) via a reduction of the NCRs of the Department for Environment, Food and Rural Affairs (DEFRA) and the Department for Business, Enterprise and Regulatory Reform (BERR). This resulted in £1.4 billion of Supply returned to the Consolidated Fund by DEFRA and BERR.

Preparation of the account

11. 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.
12. The CF Account remains on a cash basis, as an account of payments and receipts. Notes to the Account provide detail on receipts and Standing Service payments. Certain transactions, balances and contingent liabilities, borne directly by the CF, cannot be brought to account in other statutory accounts and are disclosed more appropriately in notes accompanying the CF Account. These items include liabilities in respect of pensions paid directly from the CF, coinage issued and redeemed, the UK's capital subscription to the European Investment Bank, the Public Dividend Capital (PDC) of the Land Registry and some contingent liabilities. This additional information is disclosed on an accruals basis in Notes 7-13 to the CF Account to assist preparation of Whole of Government Accounts.
13. There is no direct read-across between the accruals-based Notes 7-13 and the cash-based CF receipts and payments account.

Audit

14. As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Consolidated Fund's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the Consolidated Fund's auditors are unaware.
15. The Account is audited by the Comptroller and Auditor General under the requirements of the National Loans Act 1968.

Nicholas Macpherson
Accounting Officer
HM Treasury

6 July 2009

Statement of Accounting Officer's responsibilities

Under section 21(1) of the National Loans Act 1968 the Treasury is required to prepare an account relating to the Consolidated Fund for each financial year in such form and containing such information as the Treasury 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 12 of the Foreword, Notes 7-13 accompanying the Account disclose certain information relating to the Consolidated Fund on an accruals basis, to assist preparation of Whole of Government Accounts.

The Treasury has appointed Nicholas Macpherson, its Permanent Secretary, as Accounting Officer for the Fund, with overall responsibility for its operation, for preparing the annual account and for submitting it to the Comptroller and Auditor General for audit.

In preparing the Account the Accounting Officer is required to observe the relevant accounting and disclosure requirements in so far as they are relevant to the Account, 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 records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in *'Managing Public Money'*.

Statement on Internal Control

Scope of responsibility

As Accounting Officer for the Consolidated Fund, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Fund's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money'. I am also obliged to conduct a review of the effectiveness of the system of internal control. This review covers all controls, including financial, operational and compliance controls and risk management. The Consolidated Fund is 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, as detailed below.

The Consolidated Fund is managed by the Treasury Accountant and his managers within the Exchequer Funds and Accounts (EFA) Team of HM Treasury.

The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Consolidated Fund's policies, aims, and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place throughout the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

EFA is managed within HMT's risk management framework. EFA management is responsible for ensuring that the operations in their area are compliant with plans, policies, procedures and legislation. EFA staff working on the Consolidated Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Training on risk management is provided as required, either by management or by attending appropriate courses. Guidance on risk management is available to all staff on the intranet and individuals' objectives reflect the need to manage risks, particularly those related to business continuity. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes.

The risk and control framework

Risk management is key to all processes within EFA, including business continuity resilience planning for those public funds for which EFA is responsible. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and identify appropriate mitigating actions. Significant risk issues are assessed by likelihood and impact.

The key risks and controls associated with the Consolidated Fund have not changed as a result of turbulence in financial markets.

The key risks in managing the Consolidated Fund are

- irregularity of transactions, including fraudulent or erroneous payments;
- incorrect accounting;
- failure of IT systems;
- failure to provide an effective service in adverse circumstances, including disaster situations; and
- failure of principal counterparties to provide agreed services.

EFA has various controls in place for managing the risks associated with the Consolidated Fund. Clear separation of duties is enforced by appropriate user permissions within the Accounting System and payment approval panels. Up-to-date policy and procedures manuals including job instructions are readily accessible to all operational staff. Payment instructions are computer-generated and are derived from underlying transaction records. This minimises the risk of keying errors. In addition application controls exist within the IT system used to manage financial transactions and account for receipts and payments on the Fund. There is also a clear and comprehensive audit trail in the IT system, to which the National Audit Office Exchequer Section has real-time access. Well-developed Service Level Agreements covering financial relationships, standards and requirements for the interchange of information with all principal counterparties are in place. Information and data protection risk are regularly reviewed. Additionally, monthly management accounts for the Fund are produced and reviewed by the Treasury Accountant.

A number of controls exist in respect of business continuity. To ensure operational resilience in key areas in the event of a business continuity situation, staff within EFA are trained to do a range of jobs and are required to swap jobs periodically to keep their knowledge up to date. Measures are in place to enable the essential payments business to continue in the event of the normal arrangements for granting credit being disrupted. The risks that impact upon EFA's key stakeholders are managed by their involvement in business continuity planning and testing. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan facilities.

Separately, the Comptroller and Auditor General, through the National Audit Office Exchequer Section, authorises Consolidated Fund payments in advance and reconciles Fund transactions on a daily basis.

Responsibility for supporting me as Accounting Officer in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, Consolidated Fund, National Loans Fund, Contingencies Fund and the transactions of the Commissioners for the Reduction of National Debt. The Chair of the Committee reports to me on matters relating to the Consolidated Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The current membership of the Committee is

- Colin Price, Chair, non-executive Director of the Debt Management Office's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive Director of the Debt Management Office's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee meets quarterly.

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 Exchequer Funds Internal Audit who provided positive assurance as to the management and control of the CF in 2008-2009 and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Exchequer Funds Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2008-2009 accounts in draft and provided me with its views before I formally signed the accounts. In my opinion, the system of internal control was effective with no significant control issues identified in 2008-2009.

Nicholas Macpherson
Accounting Officer
HM Treasury

6 July 2009

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

I certify that I have audited the financial statements of the Consolidated Fund for the year ended 31 March 2009 under the National Loans Act 1968. These comprise the Receipts and Payments Account and supporting Notes 1 to 6, and the accruals based disclosures in Notes 7 to 13. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Foreword, the Statement on Internal Control and the financial statements in accordance with Section 21(1) of the National Loans Act 1968 and in the form prescribed by HM Treasury. The Accounting Officer is also responsible 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 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 properly present the receipts and payments of the Consolidated Fund and whether they have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury. I also report to you my opinion as to whether there exist any material misstatements in the accruals based disclosures in Notes 7 to 13 and whether these disclosures have been prepared in accordance with the accounting policies set out in the Notes.

I report to you whether, in my opinion, the information included in the Foreword is consistent with the financial statements. I also report whether, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions of the Consolidated Fund conform to the authorities which govern them.

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

I review whether the Statement on Internal Control reflects the Consolidated Fund'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 HM Treasury's corporate governance procedures or its risk and control procedures.

I read the Foreword and consider the implications for my report if I become aware of any apparent misstatements within it.

Basis of audit opinions

I conducted my audit in accordance with International Standards of 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 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 to the Consolidated Fund'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 are free from material misstatement, whether caused by fraud or error and that, in all material respects, the financial transactions 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.

Opinions

In my opinion

- the financial statements, which comprise the Receipts and Payments Account and supporting Notes 1 to 6, properly present, in accordance with the National Loans Act 1968 and the form prescribed by HM Treasury, the receipts and payments of the Consolidated Fund for the year ended 31 March 2009;
- the information contained within Notes 7 to 13, in relation to certain statutory pension arrangements, coinage issued and redeemed, fixed asset investments and contingent liabilities as at 31 March 2009, is not materially misstated and has been prepared in accordance with the accounting policies set out in the Notes;
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury; and
- information included in the Foreword is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General

10 July 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Receipts and Payments Account for the year ended 31 March 2009

| Receipts | Notes | 2008-2009 £ million | 2007-2008 £ million |
|---|-------|--------------------------------------|------------------------|
| Tax revenue | | | |
| HMRC | 2 | 335,095 | 341,960 |
| Vehicle Excise Duty | 2 | 5,565 | 5,397 |
| National Non-Domestic Rates | 2 | 20,011 | 18,933 |
| | | 360,671 | 366,290 |
| Other receipts | | | |
| Repayments from the Contingencies Fund | | 12,010 | 2,994 |
| Miscellaneous | 3 | 22,060 | 16,486 |
| Deficit funded from the National Loans Fund | | 165,519 | 49,028 |
| Total receipts | | 560,260 | 434,798 |
| Payments | | | |
| Supply services | 4 | 506,405 | 398,159 |
| Standing services | | | |
| Payments to the National Loans Fund for net interest payments | | 20,951 | 19,390 |
| Payments to the budget of the European Communities | 5 | 7,561 | 9,786 |
| Other standing services | 6 | 13,343 | 4,463 |
| | | 548,260 | 431,798 |
| Issues to the Contingencies Fund | | 12,000 | 3,000 |
| Total payments | | 560,260 | 434,798 |

The notes on pages 11 to 18 form part of this Account.

Nicholas Macpherson
Accounting Officer
HM Treasury

6 July 2009

Notes to the Accounts

1 Statement of accounting policies

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

In addition, accruals-based disclosures are made at Notes 7-13 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 paid directly from the CF, coinage issued and redeemed, the UK's capital subscription to the European Investment Bank, the Public Dividend Capital (PDC) of the Land Registry and some contingent liabilities. 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 7-13 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. These departments are Her Majesty's Revenue and Customs (HMRC), the Driver and Vehicle Licensing Agency (DVLA) and the Department for Communities and Local Government (DCLG).

HMRC is empowered to receive funding from the CF to meet its cash needs on days when its revenue-related outflows exceeded its receipts. Some £11.5 billion was advanced from the CF for this purpose in 2008-2009 (£4.2 billion in 2007-2008). These advances do not have to be repaid and are reported in note 6.

3 Miscellaneous receipts

| | Notes | 2008-2009 £000 | 2007-2008 £000 |
|---|-------|-------------------|-------------------|
| Consolidated Fund Extra Receipts | | 19,783,403 | 15,435,967 |
| OFGEM revenue in respect of the Fossil Fuel Levy | | 223,000 | 120,000 |
| United Kingdom coinage issued | 9 | 165,304 | 125,450 |
| Crown Estate surplus revenue | | 227,000 | 207,000 |
| Broadcasting additional receipts and penalties | | 42,327 | 62,378 |
| Crown's share of the Crown's Nominee Fund | | 18,000 | 30,000 |
| Share of surplus accrued from securities for National Savings Bank | | 38,467 | 33,470 |
| Land Registry – dividend on public dividend capital | | 19,709 | 16,548 |
| National Savings Bank Ordinary Account contribution for management expenses | | 5,485 | 0 |
| Prior year over-issues of Supply repaid | 4 | 29,712 | 399,095 |
| Court Funds Investment Account - surplus income | | 4,240 | 16,200 |
| Insolvency Service – unclaimed dividends | | 3,352 | 3,915 |
| Supply 2008-2009 returned due to Machinery of Government change | 4 | 1,361,313 | 0 |
| European Union Solidarity Fund Grant | | 131,193 | 0 |
| Miscellaneous | | 6,855 | 10,173 |
| Receipts subsequently repaid | | 247 | 25,364 |
| Total | | 22,059,607 | 16,485,560 |

The overall increase in miscellaneous receipts of £5.6 billion is mainly due to an increase in Consolidated Fund Extra Receipts (CFERs) of £4.3 billion and a one-off amount of £1.4 billion for Supply returned to the Consolidated Fund due to a Machinery of Government change. The increase in CFERs is predominantly due to an increase in the Treasury's receipts paid to the Consolidated Fund of £6.3 billion which has been generated from interventions in the financial sector. Further information on these interventions can be found in the Treasury's resource accounts. This has been partly offset by a reduction in the Export Credit Guarantee Department's (ECGD) receipts of £1.1 billion due to a decrease in recoverable claims. The Machinery of Government change created the new 2008-2009 Supply net cash requirement (NCR) of the Department of Energy and Climate Change (DECC) via a reduction of the NCRs of the Department for Environment, Food and Rural Affairs (DEFRA) and the Department for Business, Enterprise and Regulatory Reform (BERR). This resulted in £1.4 billion of Supply returned to the Consolidated Fund by DEFRA and BERR.

4 Analysis of supply services

a Supply Services issues and repayments

| | Notes | 2008-2009 £000 | 2007-2008 £000 |
|---|-------|--------------------|-------------------|
| Supply Issues | | | |
| For current year | | 506,331,151 | 397,693,233 |
| For previous years | | 74,272 | 466,262 |
| Gross Supply Services issued | | 506,405,423 | 398,159,495 |
| Prior year over-issues surrendered in cash | 3 | (29,712) | (399,095) |
| Supply returned to CF due to Machinery of Government change | 3 | (1,361,313) | 0 |
| Net Supply Services issued | | 505,014,398 | 397,760,400 |

b Supply Services analysed by period

| | | Year for which supply granted | | |
|--|---|-------------------------------|-------------------|-------------------|
| | | 2008-2009 £000 | 2007-2008 £000 | 2006-2007 £000 |
| Cash Supply granted by Parliament (as reported) | | 516,448,723 | 409,090,270 | 388,668,410 |
| Excess Vote | | 0 | 5,780 | 0 |
| Revised cash supply granted by Parliament | | 516,448,723 | 409,096,050 | 388,668,410 |
| Surplus not required (as reported) | | n.a | (14,683,607) | (17,238,716) |
| Adjustment for prior year over-issues* | | 0 | 0 | (448) |
| Revised surplus not required | | n.a | (14,683,607) | (17,239,164) |
| Revised total net cash requirement outturns reported by government departments | | n.a | 394,412,443 | 371,429,246 |
| Year of payment/(receipt) | | | | |
| 2006-2007 | Issues made in year | 0 | 0 | 370,390,110 |
| | Prior year issues applied to a subsequent year | 0 | 0 | 3,531,763 |
| | Prior year over-issues surrendered in cash | 0 | 0 | 0 |
| 2007-2008 | Issues made in year | 0 | 397,693,233 | 466,262 |
| | Prior year issues applied to a subsequent year | 0 | 2,558,570 | (2,558,570) |
| | Prior year over-issues surrendered in cash | 0 | 0 | (399,095) |
| 2008-2009 | Issues made in year | 506,331,151 | 74,272 | 0 |
| | Prior year issues applied to a subsequent year | 5,883,920 | (5,883,920) | 0 |
| | Prior year over-issues surrendered in cash | n.a | (29,712) | (1,224) |
| | Supply returned to CF due to Machinery of Government change | (1,361,313) | 0 | 0 |
| Total | | n.a | 394,412,443 | 371,429,246 |

- * The adjustment of £448,000 was in respect of an error within the Assets Recovery Agency's 2006-2007 Resource Accounts which was carried over to 2007-2008 and resolved in 2008-2009.

Note 4a shows receipts and payments of Supply.

Note 4b analyses the receipts and payments of Supply according to the year for which the Supply was granted. The Net Cash Requirement for 2008-2009 will not be finalised until all Government departments have published their accounts. Therefore this figure and the subsequent analysis is noted as not available (n.a.). This will be published in the 2009-2010 Consolidated Fund Account. Excess Votes are always approved in March of the following year, therefore any adjustments to Supply in respect of Excess Votes will always be recorded as an adjustment to the previous year's figures. In 2008-2009 there was a cash Excess Vote of £5,780,000 for the Department of Business, Enterprise and Regulatory Reform: UKAEA pension schemes 2007-2008 Account (in 2007-2008 cash Excess Vote was nil).

5 United Kingdom contributions to the Budget of the European Communities

Member States' contributions to the Budget of the European Communities are made on the basis of the financing system set out in the Own Resources Decision (ORD) which was agreed by all Member States and incorporated into UK law by virtue of the EC (Finance) Act 2001. A new ORD was agreed in June 2007 and entered into UK law by virtue of the European Communities (Finance) Act 2008 which received Royal Assent on 19 February 2008. However, UK contributions in 2008-2009 were made on the basis of the previous ORD as ratification by all Member States had not been completed, see Note 11. 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 Income (GNI). Revisions to a Member State's contributions for a given year may therefore be made for several years. Payments are made based on 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 Budget of the European Communities to be financed by own resources consisting of

- i customs duties, including those on agricultural products;
- ii sugar levies;
- iii VAT, which is the product of the application of a uniform rate, not exceeding 1 per cent, to a harmonised expenditure base, which must not, for any Member State, exceed 0.5 per cent of its GNI; and
- iv a 'fourth' resource based on Member States' shares in Community GNI. The rate of this GNI 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 approximately 66 per cent of the difference in the previous year between what the UK would have paid if the Budget of the European Communities 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 of the European Communities.

| | Contribution for year ended 31 March 2009 £000 | 2008-2009 Adjustment of prior years' contributions £000 | Total £000 | 2007-2008 Total £000 |
|---|---|--|-----------------------|----------------------------|
| Customs duties | 1,999,774 | 0 | 1,999,774 | 1,824,457 |
| Sugar levies | 46,188 | 0 | 46,188 | (2,219) |
| VAT contribution (before abatement) | 2,439,795 | 15,255 | 2,455,050 | 2,571,322 |
| Fourth resource contributions | 8,863,219 | (208,830) | 8,654,389 | 9,352,023 |
| | 13,348,976 | (193,575) | 13,155,401 | 13,745,583 |
| Less: UK abatement | (5,524,954) | (69,681) | (5,594,635) | (3,960,082) |
| UK's total contribution to EC Budget | 7,824,022 | (263,256) | 7,560,766 | 9,785,501 |

Contingent liabilities relating to the Budget of the European Communities are described in Note 11.

6 Other Consolidated Fund Standing Services payments

| | Notes | 2008-2009 £000 | 2007-2008 £000 |
|---|-------|-------------------|-------------------|
| Civil List, annuities and pensions | | | |
| Civil List payments | | 9,513 | 9,513 |
| Royal Household Pension Scheme | 7d | 3,532 | 3,497 |
| Pensions for Judicial Services | 8 | 46,376 | 39,800 |
| MEPs' pensions | 7d | 962 | 1,095 |
| Political and Public Service pensions | 8 | 422 | 534 |
| Civil List pensions | 8 | 131 | 126 |
| Salaries and allowances | | | |
| Courts of Justice | | 152,881 | 144,704 |
| Members of the European Parliament | | 5,501 | 5,213 |
| Other | | 1,469 | 1,379 |
| Miscellaneous services | | | |
| Election and referendum expenses | | 550 | 9,621 |
| Advances to HMRC in support of revenue | 2 | 11,534,000 | 4,238,000 |
| Royal Mint | 9 | 7,327 | 7,065 |
| Miscellaneous refunds | | 24,707 | 2,634 |
| Financial assistance payments | | 1,555,162 | 0 |
| Other | | 234 | 160 |
| Total | | 13,342,767 | 4,463,341 |

The increase in Standing Service payments of £8.8 billion is mainly due to an increase in advances to HMRC of £7.3 billion, and £1.6 billion paid in respect of providing financial assistance to the Dunfermline Building Society. This new financial assistance Standing Service was passed by Parliament in the Banking Act 2009. Further details of the Treasury's interventions in the financial sector can be found in the Treasury's resource accounts for 2008-2009.

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 (RHPS), 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. 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 the yield available on AA corporate bonds. The rate to use is advised by HM Treasury each year in accordance with section 6.5 of the Government's Financial Reporting Manual.

a Actuarial assessment assumptions

A full actuarial assessment was carried out for the Royal Household Pension Scheme as at 31 March 2009. A roll-forward actuarial assessment was carried out for the MEPs under the European Parliament (UK Representatives) Pension Scheme, based on the full actuarial valuation at 31 March 2007. Both actuarial assessments were performed by the Government Actuary's Department. The major assumptions used by the actuary for both schemes were

| | At 31 March 2009 % per annum | At 31 March 2008 % per annum |
|------------------------------|------------------------------------|------------------------------------|
| Rate of increase in salaries | 4.30 | 4.30 |
| Discount rate | 6.04 | 5.32 |

Life expectancy

The assumed life expectancy at age 65 of MEP pensioners retiring in normal health was as follows

| | At 31 March 2009 | | At 31 March 2008 | |
|--------------------|------------------|------------------|------------------|------------------|
| | Men (years) | Women (years) | Men (years) | Women (years) |
| Current pensioners | 23.9 | 24.3 | 23.0 | 26.2 |
| Future pensioners | 25.8 | 26.0 | 25.5 | 28.6 |

The assumed life expectancy at age 60 of Royal Household pensioners retiring in normal health was as follows

| | At 31 March 2009 | | At 31 March 2008 | |
|--------------------|------------------|------------------|------------------|------------------|
| | Men (years) | Women (years) | Men (years) | Women (years) |
| Current pensioners | 28.6 | 31.8 | 28.5 | 31.7 |
| Future pensioners | 30.2 | 33.3 | 30.1 | 33.2 |

In addition, two further assumptions were used by the actuary for the Royal Household Pension Scheme

| | At 31 March 2009 | At 31 March 2008 |
|--------------------------------------|---------------------|---------------------|
| | % per annum | % per annum |
| Rate of increase in pension payments | 2.75 | 2.75 |
| Inflation assumption | 2.75 | 2.75 |

b 2008-2009 Expenditure and income

| | 2008-2009 RH | 2008-2009 MEPs | 2008-2009 Total | 2007-2008 Total |
|--|-----------------|-------------------|--------------------|--------------------|
| | £000 | £000 | £000 | £000 |
| Expenditure | | | | |
| Current service costs (including employee contributions) | 1,306 | 1,389 | 2,695 | 3,185 |
| Interest on scheme liability | 4,501 | 1,700 | 6,201 | 5,348 |
| Total expenditure | 5,807 | 3,089 | 8,896 | 8,533 |
| Income | | | | |
| <i>Pension contributions receivable</i> | | | | |
| Employers' contributions | 1,015 | 0 | 1,015 | 987 |
| Employees' contributions | 148 | 489 | 637 | 627 |
| Total income | 1,163 | 489 | 1,652 | 1,614 |
| Net expenditure | 4,644 | 2,600 | 7,244 | 6,919 |

c Movement in liabilities during the year

| | 2008-2009 RH | 2008-2009 MEPs | 2008-2009 Total | 2007-2008 Total |
|---|-----------------|-------------------|--------------------|--------------------|
| | £000 | £000 | £000 | £000 |
| Scheme Liability at beginning of the year | (85,696) | (30,993) | (116,689) | (117,464) |
| Current service costs | (1,158) | (900) | (2,058) | (2,558) |
| Employee contributions | (148) | (489) | (637) | (627) |
| Benefit payments (note 6) | 3,532 | 962 | 4,494 | 4,592 |
| Other finance charges – interest | (4,501) | (1,700) | (6,201) | (5,348) |
| Total | (87,971) | (33,120) | (121,091) | (121,405) |
| Actuarial gain | 6,749 | 3,900 | 10,649 | 4,716 |
| Liability at end of year | (81,222) | (29,220) | (110,442) | (116,689) |

The above movement in liabilities is based on the actuarial assessments at 31 March 2009.

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.

| | 2008-2009 RH £000 | 2008-2009 MEPs £000 | 2008-2009 Total £000 | 2007-2008 Total £000 |
|---|-------------------------|---------------------------|----------------------------|----------------------------|
| Total pension paid | 3,116 | 1,165 | 4,281 | 4,102 |
| Commutation and lump sum benefits | 416 | 72 | 488 | 730 |
| Total pension benefits paid | 3,532 | 1,237 | 4,769 | 4,832 |
| Less: increase element of MEPs' pensions borne by the Civil Service Superannuation Resource Account | 0 | (275) | (275) | 240 |
| Total borne by the Consolidated Fund | 3,532 | 962 | 4,494 | 4,592 |

e Analysis of actuarial (gains)/losses on unfunded pension schemes

| | 2008-2009 RH £000 | 2008-2009 MEPs £000 | 2008-2009 Total £000 | 2007-2008 Total £000 |
|--|-------------------------|---------------------------|----------------------------|----------------------------|
| (Gains)/Losses arising on scheme liabilities | 135 | (300) | (165) | 1,273 |
| Changes in assumptions underlying the present value of liabilities | (6,884) | (3,600) | (10,484) | (5,989) |
| Total | (6,749) | (3,900) | (10,649) | (4,716) |

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 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 for judicial services – Liabilities in respect of this scheme are included in the Judicial Pension Scheme resource account. Payments from the Consolidated Fund in respect of this scheme in 2008-2009 amounted to £46.4 million (£39.8 million in 2007-2008).

Pensions for Parliamentary Officers for political and civil services provided - relate to pensions for former Prime Ministers, Speakers, Comptroller and Auditor Generals, Parliamentary Commissioners, Information Commissioners, Northern Ireland Chief Electoral Officers and Senior Electoral Commissioners. In total, a sum of £422,000 was paid from the Consolidated Fund in 2008-2009 in respect of these pensions (£534,000 in 2007-2008). The actuarial liability falling on the Consolidated Fund, across all these schemes, has been assessed at £7.1 million at 31 March 2009 (£7.2 million at 31 March 2008) and is not material to the Consolidated Fund.

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 total, a sum of £131,000 was paid from the Consolidated Fund in 2008-2009 in respect of these pensions (£126,000 in 2007-2008).

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 (£37.5 million in 2008-2009 and £38.8 million in 2007-2008).

Sums due to the Consolidated Fund

| | Notes | 2008-2009 £000 | 2007-2008 £000 |
|------------------------------------|-------|-------------------|-------------------|
| Balance at 1 April | | 9,171 | 685 |
| Coins issued | | 163,833 | 132,801 |
| Cash received by Consolidated Fund | 3 | (165,304) | (125,450) |
| Coins redeemed | | (7,070) | (5,985) |
| Cash paid by Consolidated Fund | 6 | 7,327 | 7,065 |
| Bank and other charges | | (61) | 55 |
| Balance at 31 March | | <u>7,896</u> | <u>9,171</u> |

10 Fixed asset investments*a European Investment Bank*

Section 2 paragraph 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 (the EIB), to be made from the Consolidated Fund.

The UK's interest in the EIB is a fixed asset investment. The EIB'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 investment in the EIB, based on its 16.17 per cent share of subscribed capital, was worth €5,852,292,000 as at March 2009 (16.17 per cent, worth €5,585,346,000 at 31 March 2008). The investment is revalued each year at the UK's share of the net assets of the EIB as reported in the EIB's accounts to 31 December of the previous year translated at the euro/sterling exchange rate at 31st March. No new cash was invested in 2008-2009 or in 2007-2008.

| | 2008-2009 £000 | 2007-2008 £000 |
|--|-------------------------|-------------------|
| European Investment Bank | | |
| At 1 April | 4,453,314 | 3,586,208 |
| Change due to exchange rate movements | 721,177 | 626,771 |
| Change due to increase in EIB net assets | <u>247,310</u> | <u>240,335</u> |
| At 31 March | <u>5,421,801</u> | <u>4,453,314</u> |

b Land Registry Public Dividend Capital

When the Land Registry was established as a trading fund it was deemed to have received Public Dividend Capital from the Consolidated Fund.

| | 2008-2009 £000 | 2007-2008 £000 |
|---|-------------------------|-------------------|
| Land Registry Public Dividend Capital | | |
| At 31 March | <u>61,545</u> | <u>61,545</u> |
| Total fixed asset investments at end of year | <u>5,483,346</u> | <u>4,514,859</u> |

11 Contingent liabilities and provisions

Contingent Liabilities

The normal convention is for contingent liabilities that would fall on the Consolidated Fund to be reported in the appropriate departmental resource account. However, some contingent liabilities have been identified that fall outside these arrangements, so they are reported here instead. These are as follows

| | At 31 March 2009 £m | At 31 March 2008 £m |
|--|------------------------------------|---------------------------|
| EC Budget: Guarantees on borrowing and lending operations* | 2,414 | 2,220 |
| EC Budget: Member State contributions** | 0 | 400 |
| European Investment Bank: Callable capital subscription*** | 23,454 | 20,184 |
| Value of UK coins in circulation | 3,919 | 3,834 |

Provisions

| | At 31 March 2009 £m | At 31 March 2008 £m |
|--|------------------------------------|---------------------------|
| EC Budget: Member States contributions** | 628 | 0 |

* €2,606 million (as evaluated at 30 June 2008), converted to £ sterling at the exchange rate 1.0794 prevailing at 31 March 2009. The EC makes loans for Macro Financial assistance purposes and specific projects to members of the EU and Third Countries eg Bosnia-Herzegovina, Georgia and Serbia and Montenegro. The loans are guaranteed by the EC Budget and the liability would crystallise if these loans were defaulted on.

** Changes to the system by which Member States finance the annual EC Budget are set out in a document known as the Own Resources Decision (ORD) which was agreed in June 2007. These changes will impact on the regular monthly UK contributions to the EC Budget which are paid from the Consolidated Fund but there will, in addition, be a one-off effect on the Consolidated Fund to cover the retrospective effect of some changes. These changes, including the extra cost, will come into effect in 2009 following the completion of ratification of the ORD by all Member States. The ORD entered into UK law by virtue of the European Communities (Finance) Act 2008 which received Royal Assent on 19 February 2008. The cost of this one-off element has been estimated at £697 million of which, some £628 million would be calculated by reference to the period to 31 March 2009. £628 million has therefore been included above as a provision at 31 March 2009. At 31 March 2008, £400 million was included as a contingent liability because the ORD had not yet been ratified by all Member States.

*** The UK is liable for €25,316 million (as at 31 December 2008) of callable capital to the EIB. Under Article 5 of the EIB's 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 towards those who have made loans to it. In the current environment, it is unlikely that Member States will be called upon to pay the remaining capital.

12 Post Balance Sheet Events

An increase of the EIB's subscribed capital from €164.8 billion to €232.4 billion came into force on 1 April 2009, to enable the EIB to expand its lending volume as part of its anti-crisis measures in response to the economic downturn. The paid-in capital was financed from the EIB's additional reserves, with the balance being callable from Member States. The UK's share of the increase, based on its 16.17 per cent shareholding, was €10.9 billion. The paid-in element of €0.5 billion was financed from the EIB's reserves, and the Consolidated Fund contingent liability relating to the EIB increased by €10.4 billion to €35.7 billion with effect from 1 April 2009.

13 Date of authorisation for issue of account

The Account was authorised for issue by the Accounting Officer on 10 July 2009.

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