HM Treasury

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Meg Hillier MP
Chair of the Committee of Public Accounts
House of Commons
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29 September 2020

Dear Ms. Hillier

HM TREASURY ANNUAL REPORT AND ACCOUNTS 2019-20

We are today laying before the House of Commons HM Treasury's Annual Report and Accounts for 2019-20. As required under the timetable set out by the Chief Secretary to the Treasury in May, we are doing so before this year's revised deadline of 30th September, which was moved back in the light of the Covid-19 pandemic. We are also including all the information which we usually set out, without using the streamlining procedure available exceptionally to departments this year. However, as set out in the Report and Accounts (ARA), the Treasury exceeded its control total for Capital Annually Managed Expenditure (C-AME) for the 2019-20 financial year by £32 million.

The ARA sets out the background in full. The main issue was an error in the Capital AME forecast provided by UK Asset Resolution (UKAR) to the Treasury for use in preparing the 2019-20 Supplementary Estimate. In part this was because UKAR follow different accounting definitions and did not make the correct translation before submitting the information (as a private limited company, UKAR does not produce accounts using government accounting definitions such as AME); this was not picked up in the reconciliation process. Furthermore, the mortgage loan book held by UKAR underperformed in the final part of the year, in part due to Covid-19 and the associated slowdown in the housing market in March 2020. As a result, UKAR's capital income was lower than forecast.

We have received significant income in prior years (in 2018-19 this was £12.1bn) through C-AME relating to the proceeds of asset sales from UK Asset Resolution (UKAR) and RBS shares. We had planned to complete another large asset sale of the residual mortgage loan book in 2019-20. The sale process was delayed. It was then put on hold in March, owing to the market disruption caused by the COVID-19 outbreak.[1] If the sale had gone ahead as initially planned, the underlying issues would not have resulted in a C-AME breach in the current year.

Following this, we are strengthening our controls and oversight over AME, including by providing more detailed guidance to our arm's length bodies and undertaking additional scrutiny on their submissions to the annual Main and Supplementary Estimates.

I apologise for this and would be happy to provide any further information that may be useful.

I have written in similar terms to the Chair of the Treasury Select Committee.

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[1] https://www.ukar.co.uk/media-centre/press-releases/2020/24-03-2020