

## Annex 1: example of provisions recorded in UK public accounts

### a) Provisions for medical negligence

#### Department of Health

#### Resource Accounts 2004-05

### SCHEDULE 3

#### Balance Sheet

as at 31 March 2005

	Note	31 March 2005		31 March 2004	
		£'000	£'000	£'000	£'000
<b>Fixed assets:</b>					
Intangible assets	10	325,278		54,251	
Tangible assets	11	6,931,732		5,370,833	
Investments	12	19,599,765		18,561,601	
			<b>26,856,775</b>		<b>23,986,685</b>
Debtors falling due after more than one year	15		<b>39,462</b>		<b>64,492</b>
<b>Current assets:</b>					
Stocks	14	167,585		164,846	
Debtors	15	1,523,727		1,415,380	
Cash at bank and in hand	16	640,192		415,772	
			<b>2,331,504</b>		<b>1,995,998</b>
Creditors (amounts falling due within one year)	17	(5,954,169)		(4,555,695)	
<b>Net current assets</b>			<b>(3,622,665)</b>		<b>(2,559,697)</b>
<b>Total assets less current liabilities</b>			<b>23,273,572</b>		<b>21,491,480</b>
Creditors (amounts falling due after more than one year)	17	(89,952)		(70,689)	
Provisions for liabilities and charges	18	(8,850,125)		(9,823,422)	
			<b>(8,940,077)</b>		<b>(9,894,111)</b>
<b>Net Assets</b>			<b>14,333,495</b>		<b>11,597,369</b>

#### 18. Provision for liabilities and charges

	Clinical Negligence £'000	Early Retirement Costs £'000	Injury Benefits £'000	EEA Medical Costs £'000	Other £'000	Total £'000
Balance at 1 April 2004	7,777,572	497,464	511,141	413,165	624,080	9,823,422
Arising during the year	1,413,112	32,881	57,639	195,249	245,849	1,944,730
Utilised during the year	(509,382)	(59,184)	(38,864)	(222,653)	(194,851)	(1,024,934)
Reversed unused during the year	(1,800,811)	(22,640)	(5,244)	-	(124,726)	(1,953,421)
Unwinding of discount	8,111	13,107	17,895	14,461	6,754	60,328
<b>Balance as at 31 March 2005</b>	<b>6,888,602</b>	<b>461,628</b>	<b>542,567</b>	<b>400,222</b>	<b>557,106</b>	<b>8,850,125</b>

## Annex 2: example of provisions recorded in UK public accounts

The balance sheet shows the book value of the loans and the provisions for bad debts

### Department for Education and Skills

### Resource Accounts 2004-05

## SCHEDULE 3

### Balance Sheet

as at 31 March 2005 (£000s)

	Note	31 March 2005		31 March 2004	
<b>Fixed assets:</b>					
Tangible assets	12	84,871		80,493	
Intangible assets	13	1,955		1,417	
Loans	14	13,001,406		10,905,122	
			<b>13,088,232</b>		<b>10,987,032</b>
<b>Current assets:</b>					
Stocks	16	–		1,204	
Debtors	17	308,520		215,391	
Loans repayable within 1 year	14	642,703		560,499	
Cash at bank and in hand	18	4		74,398	
			951,227		851,492
<b>Creditors (amounts falling due within one year):</b>					
Creditors	19	(584,845)		(439,663)	
Cash at bank and in hand	18	(38,442)		–	
			(623,287)		(439,663)
<b>Net current assets</b>			<b>327,940</b>		<b>411,829</b>
<b>Total assets less current liabilities</b>			<b>13,416,172</b>		<b>11,398,861</b>
Provisions for liabilities and charges	20		(3,712,624)		(3,510,429)
			<b>9,703,548</b>		<b>7,888,432</b>
<b>Taxpayers' equity:</b>					
General fund	21		9,698,076		7,888,246
Revaluation reserve	22		5,472		186
			<b>9,703,548</b>		<b>7,888,432</b>

## Annex 2: example of provisions recorded in UK public accounts

### Note on the provision for loans

**Department for Education and Skills**

**Resource Accounts 2004-05**

### Notes to the departmental resource accounts *(continued)*

#### 20. Provisions for liabilities and charges

	Early departure costs	Student loans write off	Student loans interest subsidy	Student loans debt sale subsidy	Residual TEC property provision	Partner- ships for Schools (PFS)	CfBT pension provision	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2004	28,802	1,230,839	1,541,986	705,020	3,782	-	-	3,510,429
Provided in year	18,474	335,909	618,648		118	7,500	15,000	995,649
Provision not required written back	(595)		(203,952)	(214,979)	(1,258)	-	-	(420,784)
Provision utilised in the year	(9,444)	(2,566)	(416,140)	(48,091)	(578)	-	-	(476,819)
Unwinding of discount	662		78,679	24,676	132	-	-	104,149
<b>Balance at 31 March 2005</b>	<b>37,899</b>	<b>1,564,182</b>	<b>1,619,221</b>	<b>466,626</b>	<b>2,196</b>	<b>7,500</b>	<b>15,000</b>	<b>3,712,624</b>

#### *Student loans*

The student loans write off provision was created to meet the future cost of loans which could not be recovered due to the death of the student, their income not reaching the income threshold, or not being able to trace the student. Each year the Department estimates the future cost of bad debts based on a percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student Loan Company.

Student loans are effectively interest free as students are only charged interest equivalent to the rate of inflation. The Department meets the costs resulting from difference between the interest paid by students and the cost of capital on loans, which is known as the interest subsidy. The interest subsidy provision meets the cost of the interest over the life of the loan and is offset by the annual interest subsidy charge. The Department increases the provision based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions.

This year the student loans interest subsidy provision has been calculated on average (previously opening) loans balances. The impact of this change has been to reduce the provision in the accounts by £171m.

The student loan debt sale provision is the additional cost to the Department of government subsidies contractually due to the purchaser of the debts beyond the cost that the government would have incurred had the debts remained in the public sector.

## Annex 3: Example of Contingent Liabilities

### Department for Transport

Resource Accounts 2003-04

#### Notes to the Accounts *(continued)*

#### 27. Contingent Liabilities

In accordance with Government policy, none of the buildings included in Fixed Assets in the balance sheet is insured. Other contingent liabilities are set out below.

The value shown is the best estimate of the expected cost of settling the liability, in the unlikely event that the contingent liability becomes an actual liability. The exceptions to this are two cases for which the maximum exposure indicated.

	2003-04	2002-03 (restated)
	£m	£m
27.1 This arises from litigation following the Secretary of State's decision to apply to the Courts to have Railtrack placed into administration. The applicants claim this action had the effect of depriving them of their rightful interest in the shares of Railtrack. The Department has received legal advice that this claim is most unlikely to succeed.	0	0
27.2 The Secretary of State has issued guarantees to the Trustees of the Railways Pension Scheme in respect of any deficit arising in the pensioners sections of the Railways Pension Scheme. A call on the guarantees, which is unlikely, is dependent upon the level of investment return.	345.0	0
27.3 Channel Tunnel Rail Link – Government guarantee in respect of bonds issued by London and Continental Railways Ltd. (Note 24).	3,750.0	3,750.0
27.4 Guarantee in respect of lease obligations of Eurostar (UK) Ltd at Ashford International Passenger Station.	61.0	133.0
27.5 Channel Tunnel Rail Link – Guarantee issued in respect of track access payments. (Note 24)	250.0	250.0
27.6 Other contingent liabilities	2.0	0

## Annex 4: Example of provisions recorded for guarantees

### Department of Trade and Industry CONSOLIDATED RESOURCE ACCOUNTS 2004 – 05

#### 23. Provisions for Liabilities and Charges – Other

	SFLG	UKAEA	Early	Other	Total
	£000	Other £000	Retirement £000	£000	£000
<b>At 1 April 2004</b>	<b>128,905</b>	<b>56,488</b>	<b>19,605</b>	<b>37,517</b>	<b>242,515</b>
Financing charges					5,119
Change in price levels	3,223	1,412	484	-	7,166
Amortisation of one year's discount	4,512	1,977	677	-	118,469
Increase / (decrease) in provisions	101,573	(13,258)	27,075	3,079	(81,208)
Expenditure during year	(58,431)	(7,200)	(7,675)	(7,902)	
<b>At 31 March 2005</b>	<b>179,782</b>	<b>39,419</b>	<b>40,166</b>	<b>32,694</b>	<b>292,061</b>

#### 23.1 Small Firms Loan Guarantee (SFLG)

The SFLG is the Department's main instrument for supporting debt finance for business. By providing a Government backed guarantee, the scheme exists to enable lenders to assist small business with viable business proposals gain access to finance where they lack security, or credit history.

The provision is based on the expected value of defaults of all outstanding loans and has been discounted at the Treasury rate of 3.5%. The undiscounted liability is £190 million (2003-04: £136 million), which is expected to be utilised over the next eight years.

#### 23.2 UKAEA Other Provisions

The figures as at 1 April 2004 reflect provisions relating to Restructuring and Environmental Remediation (HERP). Restructuring costs cover the continuing annual payments for staff who took early retirement primarily before the privatisation of AEAT in 1996 and will continue until they reach retirement age.

Environmental Remediation costs cover the treatment of chemical contamination of the groundwater at the UKAEA's Harwell site. This provision, valued at £13.2 million as at 1 April 2004, was transferred to the UKAEA decommissioning provision during the year. This transfer is recorded in the increase/(decrease) in provisions figure.

#### 23.3 Early Retirement

The Early Retirement Provision has increased from £19.6m to £40.1m in the year as a result of providing for the future costs of staff departing under a voluntary early retirement or severance scheme that was run in the year (more detail is on page 23 of the Foreword to these Accounts). As a result of the scheme, a total of 442 staff took or will be taking voluntary early severance or retirement between January and December 2005.

The provision is required in order to meet pension enhancement and severance costs for staff departing under this scheme, with the liabilities extending for up to 6.67 years.

#### 23.4 Other

This relates to a range of liabilities arising from the Department's normal business. It includes agency provisions arising through consolidation and provisions for various other Departmental programmes and administration costs.