

Department for Education and Skills

Resource Accounts 2001–02

(For the year ended 31 March 2002)

Department for Education and Skills

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(For the year ended 31 March 2002)

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Resource Accounts: Department for Education and Skills

Annual Report

Scope

1. Entities within the Departmental Accounting Boundary

1.1 The entities within the Departmental Boundary that make up these consolidated financial statements are the Department for Education and Skills (Request for Resource 1), Sure Start (Request for Resource 3) and Children's Fund (Request for Resource 4). The Employment Service (Request for Resource 2) transferred to the Department for Work and Pensions (DWP) as part of the Machinery of Government changes and is no longer within the Departmental boundary.

2. Aims and Objectives of the Department

2.1 The Department's overall aim is:

'To give everyone the chance, through education, training and work, to realise their full potential and thus build an inclusive and fair society and a competitive economy'.

2.2 To achieve our aim the Department works to:

- Objective 1 – Ensuring that all young people reach 16 with the skills, attitudes and personal qualities that will give them a secure foundation for lifelong learning, work and citizenship in a rapidly changing world;
- Objective 2 – Developing in everyone a commitment to lifelong learning, so as to enhance their lives, improve employability in a changing labour market and create skills that our economy and employers need;
- Objective 3 – Helping those without a job into work. This objective transferred to DWP as part of the Machinery of Government changes.

3. Principal Activities

3.1 The core policy and funding activities of the Department during 2001–02 were:

- voluntary and special schools;
- the provision of education for the under-fives;
- city colleges and other specialist schools;
- grant maintained schools;
- music, dance and drama schools and institutions;
- the schools curriculum and its assessment;
- services and initiatives to promote learning, and providing advice guidance and support;
- careers guidance and services;
- payments for or in connection with teacher training and representation and modernising the teaching profession;
- higher and further education provision and initiatives;
- loans to students, student awards and other student grants and their administration;
- access funds and other student support payments;
- grant-in-aid to Executive Non Departmental Public Bodies (NDPBs), including working capital loans to the General Teaching Council (GTC);

- reimbursement of fees for qualifying European Community students and post graduate awards;
- compensation payments to teachers and staff of certain institutions and teachers' medical fees;
- expenditure on other central government grants to local authorities;
- the provision of training and assessment programmes for young people and adults;
- initiatives to improve education, training and qualifications arrangements and access to these;
- the promotion of enterprise and encouragement of self employment;
- payments for education, training and employment projects assisted by the European Union and refunds to the European Union;
- the UK subscription to the International Labour Organisation and other international educational programmes;
- loans to the University for Industry;
- payments to the Regional Development Agencies;
- the Assisted Places Scheme;
- loans and residual costs of the winding up of the Training and Enterprise Councils (TECs);
- supporting families and communities via the Sure Start programme;
- promoting the physical, intellectual and social development of pre-school children;
- research, publicity and administration costs, including initiatives with other government departments under the Invest to Save budget;
- payments to Other Government Departments to support the transfer of functions following the Machinery of Government changes.

4. Bodies outside of the Departmental Accounting Boundary.

4.1 The Department has lead responsibility for the following public sector bodies which are outside the Departmental boundary :

Executive Non Departmental Public Bodies (NDPBs)

Adult Learning Inspectorate (ALI)
 British Educational Communications Technology Agency (BECTA)
 General Teaching Council (GTC)
 Higher Education Funding Council for England (HEFCE)
 Investors in People UK Ltd (IiP)
 Learning and Skills Council (LSC)
 National College for School Leadership (NCSL)
 Qualifications and Curriculum Authority (QCA)
 Student Loans Company Ltd (SLC)
 Teacher Training Agency (TTA)

Public Corporation

General Teaching Council (GTC)

Executive NDPBs funded by levy

Construction Industry Training Board (CITB)

Engineering Construction Industry Training Board (ECITB)

Advisory NDPBs

Registered Inspectors Appeal Tribunal
School Teachers Review Body
Special Education Needs Tribunal

Near to Government Bodies

Basic Skills Agency
British Academy
Centre for Information on Language Teaching and Research (CILT)
Technology Colleges Trust
University for Industry

4.2 In addition to the NDPBs, the department also had lead responsibility for the following public bodies:

Local Education Authorities
Training & Enterprise Councils and Chambers of Commerce, Training & Enterprise.

5. Departmental Report

5.1 In June 2002 the department published the Departmental Report, a comprehensive review of the Department for Education and Skills and the Office for Standards in Education (OFSTED). It gives detailed information on the department's activities in the 2001–02 financial year and the following financial information:

- outturn for 2000–01
- estimated outturn 2001–02
- and expenditure plans for 2002–03 and 2003–04

6. Pension Liabilities

6.1 The employees of the Department are covered by the Principal Civil Service Pension Scheme (PCSPS). The cost of pension provision is discharged by the payment of an Accruing Superannuation Liability Charge (ASLC) and these charges are included in the operating cost statement. Any liability not discharged at year end will be shown within 'Creditors – amounts falling due within one year'. The pension Scheme Statement for PCSPS is published by the Cabinet Office.

6.2 The DfES also administers the Teachers' Superannuation Scheme. This is a contributory scheme actuarially assessed by the Government Actuary's Department. Employers' contributions are provided from entities outside the Departmental Boundary for example Grant Maintained Schools. As with the PCSPS the expenditure of the scheme is secured against future tax yield. The administration costs of this scheme are included within the core DfES Resource Accounts expenditure but the Scheme itself falls outside these accounts. The Scheme statement will be published separately.

7. Operating and Financial Review

7.1 The following paragraphs are a summary of the operating and financial performance during the financial year and investment strategy for the future. Further information is available in the Departmental Annual Report published in June 2002, and the Departmental Investment Strategy 2001–04, which are available on the DfES website (www.dfes.gov.uk).

Features of the operating and financial performance for the year*Developments in the Department's activities and its environment*

7.2 In June 2001, we ceased to be the Department for Education and Employment and became the Department for Education and Skills. The 2000–01 comparative figures in the accounts have been restated to eliminate expenditure relating to the following programmes which transferred as a result of the Machinery of Government changes:

- transfer of employment and disability policy and programmes to the Department for Work and Pensions;
- transfer of work permits policy and administration to the Home Office;
- transfer of equality policy and programmes to the Department of Trade and Industry and the Cabinet Office.

The Department's activities are now focused on

- how we develop and implement policies and programmes for education and skills, by setting the framework of standards, accountability, devolution and customer choice for each part of education and training system; and
- building capacity at all levels inside the Department to support effective delivery.

7.3 The world in which people learn and work is changing rapidly. The gap between people and nations who have knowledge, skills and employment opportunities and those who have not is set to widen. Key factors affecting the development of the Department's policies for learning and skills are:

- globalisation – the global economy is increasingly interconnected and knowledge-based. This means that goods, services, capital and information are highly mobile, and success depends on the skills of our people;
- information revolution – the development of more powerful and cheaper digital technology has major implications for the way we communicate, manage information and educate ourselves;
- economic change – rapid change in technology and the nature of work requires organisations and individuals to commit themselves to lifelong learning so their skills remain relevant;
- social and cultural changes – an aging population, increased early retirement, changes in family structures; concern about sustainable development; and an increasing focus on the treatment of individuals; these factors all influence expectations and needs.

Delivery of our agenda to address these issues depends on working with children, young people, adult learners, employers and a wide range of partners, particularly the Non Departmental Public bodies listed in para 4.1.

7.4 A further significant change during this year has been the closure of the Training and Enterprise Councils (TECs) and the establishment of the Learning and Skills Council (LSC). The department has received £188 million from the TECs, which has been used to make a significant contribution to the cost of Individual Learning Accounts, to contribute towards the set up costs of the LSC and for re-investment in local communities. Further information on the use of TEC assets and examples of how local communities have benefited are included in Note 28 of the accounts.

Financial position

7.5 The Operating Cost Statement shows that the net operating cost for the department was £18,510,046,723.87, £1,031,033,276.13 less than the forecast operating cost. See paragraph 7.8 for an explanation of the variances.

Analysis of Trends

7.6 The table below compares financial performance indicators for 2001–02 to 2000–01. It focuses on administrative costs and student loans, which has a significant impact on the department’s balance sheet.

| | <u>2001–02</u> | <u>2000–01</u> |
|--|----------------|----------------|
| (i) Gross admin costs as a % of total gross spend | 1.2% | 1.7% |
| (ii) Staff costs as a % of gross admin costs | 54% | 54% |
| (iii) Purchase of new assets used by the department in year | £10,552,000 | £10,858,000 |
| (iv) Rate of replacement of departmental assets in use | 7 years | 8 years |
| (v) Student loans issued in year | £2,117,714,000 | £1,899,777,000 |
| (vi) Repayment of Student loans as a % of opening balance of loans | 5% | 5% |

7.7 Explanation of trends

Administration costs have fallen from 1.7% to 1.2% of gross costs. This is because expenditure on grants and programmes has gone up without a corresponding increase in administration overheads, and work has been organised differently (for example, the LSC was set up). The department’s staff costs no longer cover the costs of staff working in Government Offices (GOs), where responsibility has transferred to the Cabinet Office. Staff costs and numbers for the core department have risen, but they represent the same proportion of gross administration costs as in 2000–01.

At 7 years, the Department has a faster rate of asset replacement than the government average of 32 years (based on the aggregate government 2000–01 accounts). The reason for the comparatively fast replacement rate is that although departmental property (excluding the National College for School Leadership) forms 49% of the revalued cost of departmental assets, the depreciation charge on property only represents 7.5% of the total in year charge. The replacement cycle is shortened by the depreciation charge on IT equipment (80% of the total in year depreciation cost) which is replaced on a 3 year cycle. We do not expect this rate to change significantly in future.

The £2,117.7 million value of student loans issued in 2001–02 is £217.9 million higher than the loans issued in 2000–01. This is a smaller increase than in previous years and we expect this trend to continue in 2002–03. In 2002–03 we estimate that new loans totalling £2,186 million will be issued to students, an increase of £68.4 million over the 2001–02 outturn. The repayment of student loans (principal and interest) during the year totalled £250 million which is consistent with the Estimate and the repayment model used to forecast receipts. It is also consistent with the growth in the opening balance.

Variances against Estimate

7.8 Note 9 of the accounts analyses expenditure in line with the format of the 2001–02 Estimate, comparing the net expenditure to the net budget provision. The significant variances from the Estimate provision are:

Request for Resource 1

- Estimate Line A – Schools – variance £628,676,000 underspend. This reflects a classification change which has been agreed by HM Treasury in respect of Teachers’ Threshold payments paid to Local Education Authorities which has been ring-fenced for teachers’ performance pay. The accounts record the costs under Estimate Line I as payments to Local Authorities rather than as direct payments to schools. In addition there were small underspends on other ring-fenced budgets, for example, childcare.
- Estimate Line B – Post 16 – variance £210,448,000 underspend. There are three main contributory factors affecting Post 16 programmes:
 - Adult Basic Skills – direct expenditure by the department was lower than anticipated because resources have been transferred to the Basic Skills Agency;
 - National Transition Budget – the transitional cost of setting up the LSC was £12 million lower than anticipated;
 - University for Industry – there were delays in implementing ICT projects which were planned for completion in 2001–02, but have slipped to 2002–03.

- Estimate Line I – Local authority school grants – variance £414,621,000 overspend. The department has received authority from HM Treasury to vire surplus provision from estimate line A to meet the costs of Teachers' Threshold payments paid to local authorities.
- Estimate Line M – Adult education – variance £58,213,000 underspend. This was the result of lower than anticipated take up of Education Maintenance Allowances paid by Local Education Authorities; and a later start with Access Funds because a report was published later than expected.
- Estimate Line O – Non cash admin costs – variance £8,769,000 underspend. This represents an unplanned negative cost of capital charge.
- Estimate Line Q – Schools capital grants – variance £221,260,000 underspend. This is because Standards Fund claims from Local Education Authorities were lower than anticipated.

Request for Resource 3 – Sure Start

The RfR has net variance between the between Estimate and actual outturn of £71,385,000. This is broken down into two Estimate Lines:

- Line A – Sure Start Admin and current grants – variance £13,412,000 underspend
- Line B – Sure Start capital grants – variance £57,973,000 underspend

This programme is a ring-fenced budget and the underspends are not available for redeployment to other programmes within the department. The underspends on both current and capital grants reflect the slower than anticipated roll-out of Sure Start programmes.

Request for Resource 4 – Children's Fund

In the first year of operation the Children's Fund has underspent its Estimate provision by £62,645,000. The slower than anticipated implementation of the local partnerships has resulted in the underspend on grants.

8. Factors and influences that may have an effect on future periods

8.1 There are two significant reviews under way in the Department that may influence the Department's future financing requirement:

- The HE Strategy review, which includes student and sector financing, is due to report in the new year and has the potential to bring major change to Higher Education funding; and
- the Skills Strategy, which includes a review of funding of adult learning.

As the outcome of the reviews is unknown at this stage it is not possible to quantify the effect on the future financing requirement of the Department.

8.2 In addition to the contingent liabilities listed in Note 25, another source of uncertainty is the constant pressure to raise resources to develop and deliver programmes.

9. Investment in the Future

9.1 Current and planned capital expenditure

Capital investment supports all of the department's objectives, underpinning its strategic aims of creating opportunities for everyone to develop their learning and skills, releasing potential in people and achieving excellence. The current Departmental Investment Strategy, which covers the years 2000–01 to 2003–04, has a common purpose across all education and skill sectors. It aims to replace obsolete infrastructure and invest in properties and equipment that are suited to the demands of modern learning, economically efficient, and widely accessible. Full details on capital investment are available in the Departmental Investment Strategy, and listed below are some examples of current and planned expenditure:

- **Early Years and Childcare** The Department has invested in significant improvements in the quality and quantity of early years education and childcare. This includes the Early Excellence Centre programme which is building a network of beacons of good practice in the delivery of integrated services for young children and their families; and during 2001–02 the DfES spent £21.5 million on capital grants on the cross-Government Sure Start programmes which are supporting families with children up to four years old in disadvantaged areas.
- **Schools** Research has proven that in addition to the economic benefits of bringing the schools estate up to a good condition, it also produces a positive impact on pupil attainment. Investment since the 2000 Spending Review settlement has allowed the continued improvement of the schools estate in pursuit of the goals of addressing the most urgent repairs in 7,000 schools and having replacement or refurbishment completed or underway in 680 schools by 2004. In the 2002 Budget a further £85 million was allocated directly to schools (and colleges) to allow them to pay for urgent repairs. The department continues to improve access for disabled children, with £220 million being invested for this purpose between 2001–02 and 2003–04.

The department has been investing in a range of initiatives to improve ICT for schools. These initiatives include improving the computer to pupil ratios; all secondary schools will have a broadband connection by 2004; in December 2001 the Department announced Curriculum Online, a partnership between Government, broadcasters, and software providers to develop innovative online teaching materials; providing over 50,000 teachers with PCs and 50% of teachers will have personal access to a PC by 2004; in January 2002 the Laptops for Teachers scheme was launched which will equip 100,000 teachers over the next 2 years.

The capital strategy introduced from 1999 has brought a number of benefits in the management of the schools estate. More funding is directly allocated to LEAs and schools through formulae rather than bidding rounds leading to greater certainty in future funding allocations.

- **Post 16 Learning** The LSC administers capital investment in the further education sector on behalf of the Department. The LSC uses formula and bid mechanisms to allocate capital to the institutions it funds. Colleges of Further Education also finance capital investment with the proceeds from the sale of land and buildings. Investment is based on their accommodation strategy, which demonstrates how their property improvement proposals meet the policy objectives of the LSC and the Government.

Investment in ICT infrastructure has resulted in 64% of colleges achieving or exceeding the target of one internet-enabled computer to every five students, and on average colleges have an internet enabled computer for every two teaching staff. The National Learning Network is being further developed, linking all colleges to the internet via the Joint Academic Network (JANET) which connects all universities and colleges to the internet.

As independent, private bodies, higher education institutions are expected to plan for and maintain their own capital stock. They fund their own capital from their reserves, the sale of assets and commercial borrowing, in addition to central funding provided via the HEFCE. Investment is improving the parts of the HE estate which are classed as in poor condition. The Science and Research Investment Fund, available between 2002 and 2004, will help to renew the science research infrastructure of the HE estate. Funding is also enhancing the Distributed Network Electronic Resource, which will provide a seamless environment for access to online resources for research, learning and teaching.

- **Administrative Capital** Investment in the Department's own administrative assets contributes to the efficient operation of the Department and supports all its objectives. The net book value of tangible and intangible assets at 31 March 2002 is £73,010,000, of which £50,864,000 relates to assets used by the department to deliver its objectives. The remaining £22,146,000 is the development cost of Sure Start's new financial system and the cost of constructing the National College for School Leadership building, of which, for contractual reasons, the Department will be the legal owner.

The bulk of the department's annual administrative capital expenditure is spent on ICT equipment (£8.3 million in 2001–02) to provide staff with desk top facilities, which is replaced on a three year cycle. The utilisation of ICT equipment is continuously assessed, in line with the Modernising Government initiative, the Supporting Better Delivery Programme, and the Department's Beacon status. The department will continue to invest in the electronic delivery of information services, the transformation of internal departmental processes, and effective

ways of working with partner organisations. Further information is available in the Department's e-Business Strategy on the DfES website.

- **Public-Private Partnerships** The department promotes public-private partnerships (PPP) across the education and skills sector as a means of providing value for money in public sector procurement. The use of the Private Finance Initiative (PFI) form of PPP continues to expand as LEAs, schools, colleges and universities seek the most economical way of procuring new builds and refurbishment of their estate.

There are 37 signed schools PFI deals to date which have attracted over £1 billion of private sector investment, benefiting nearly 500 schools. More than 40 further projects are in development and procurement, covering over 300 schools. So far, PFI has been very successful in procuring large projects, and the Department is seeking to make PFI more flexible in the future so that it can support smaller projects more easily. Future developments include the introduction of standard schools contract material, which will reduce the cost and timescales involved for both the public and private sectors.

- **Capital Modernisation Fund** The Capital Modernisation Fund (CMF) is a cross-Government fund which supports innovative capital projects. The Government allocated £107.3 million in the third round and £115 million in the fourth round of the CMF, to projects being taken forward by the Department.

During 2001–02 the Department issued grants totalling £99.3 million to support various CMF projects. Of this, grants totalling £82.6 million were issued to support UK online centres. The UK online centres help to support the Government's overall drive to ensure that everyone who wants to can access ICT by 2005. Its overall aim is to explore ways of engaging hard to reach people in disadvantaged communities and encouraging them into learning and gaining the skills for the knowledge economy.

Details of the CMF projects are available in the Annual Report and the Departmental Investment Strategy.

9.2 The proposals in the 2002 Spending Review included the Department's new capital investment plans and, following the settlement by HM Treasury, the Departmental Investment Strategy for the years 2003–04 to 2005–06 will be published shortly.

9.3 Research and development

The Operating Cost Statement includes £9.5 million expenditure on research projects during 2001–02. It is the department's policy not to capitalise the research costs, they are written off in the year the expenditure was incurred.

Management

10. Ministers

10.1 The following ministers formed the ministerial team of the department during the 2001–02 financial year:

| | |
|------------------|---|
| David Blunkett | Secretary Of State (Until June 2001) |
| Tessa Blackstone | Minister for Education and Employment in the Lords (Until June 2001) |
| Tessa Jowell | Minister for Employment, Welfare to Work and Equal Opportunities (Until June 2001) |
| Estelle Morris | Minister for School Standards (Until June 2001) |
| Stephen Timms | Minister for School Standards (From June 2001) |
| Catherine Ashton | Parliamentary Under Secretary of State for Early Years and Schools Standards (From June 2001) |
| John Healey | Parliamentary Under Secretary of State for Adult skills (From June 2001) |
| Margaret Hodge | Parliamentary Under Secretary of State for Employment and Equal Opportunities (Until June 2001) |

| | |
|---------------|---|
| Ivan Lewis | Parliamentary Under Secretary of State for Young People and Learning (From June 2001) |
| Jacqui Smith | Parliamentary Under Secretary of State for Schools Standards (Until June 2001) |
| Malcolm Wicks | Parliamentary Under Secretary of State for Lifelong Learning (Until June 2001) |
| Michael Wills | Parliamentary Under Secretary of State for Learning and Technology (Until June 2001) |

10.2 The following ministers were given new responsibilities within the department during the year:

| | |
|----------------|---|
| Estelle Morris | Secretary of State (Replaced David Blunkett 8 June 2001) |
| Margaret Hodge | Minister for Lifelong Learning & Higher Education (from June 2001). |

11. Permanent Head of Department and the Management Board

| | |
|---------------------|--|
| David Normington | Permanent Secretary (replaced Sir Michael Bichard 21 May 2001) |
| Sir Michael Bichard | Permanent Secretary (Until 21 May 2001) |
| Peter Housden | Director General, Schools Directorate (From 31 October 2001) |
| Peter Lauener | Acting Director General, Lifelong Learning Directorate (From 7 September 2001 to 6 January 2002) |
| Peter Makeham | Director General, Finance and Analytical Services Directorate |
| Susan Thomas | Director General, Corporate Services and Development Directorate |
| Peter Shaw | Director General, Youth Directorate (From 10 September 2001) |
| Janice Shiner | Director General, Lifelong Learning Directorate (From 7 January 2002) |
| Nick Stuart | Director General, Lifelong Learning Directorate (Until 7 September 2001) |
| Helen Williams | Acting Director General, Schools Directorate (Until 31 October 2001) |
| Peter Wanless | Director, Strategy and Communications Directorate |

In addition there are two non-executive board members, Tim Stevenson and Lin Homer.

12. Appointments of the Permanent Head of the Department and the Management Board

12.1 The permanent head of the department was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial head of the department. The appointment is for an indefinite term under the terms of the Senior Civil Service contract. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

12.2 Other departmental members of the Management Board were appointed by the Permanent Secretary (with the approval of the Senior Appointments Selection Committee where appropriate). These appointments are for an indefinite term under the terms of the Senior Civil service contract. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

13. Ministers' and Board Members' Remuneration

13.1 Ministers' remuneration is set by the Ministerial and Other salaries Act 1975 (as amended by the Ministerial and Other salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

13.2 The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard, cols 245-247).

13.3 The pay of the Management Board is determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

13.4 Further details on remuneration are set out in Note 2 to these financial statements.

14. Employment of Disabled Persons

14.1 The Department follows the Civil Service Code of Practice on the Employment of Disabled People, which aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement with the Ministry is based solely on ability, qualifications and suitability for the work.

15. Equal Opportunities Policy

15.1 The Department is committed to being an equal opportunities employer. We value and welcome diversity. We aim to develop all our staff to enable them to make a full contribution to meeting the Department's objectives, and to fulfil their own potential on merit. We will not tolerate harassment or other unfair discrimination on grounds of sex, marital status, race, colour, nationality, ethnic origin, disability, age, religion or sexual orientation. We will promote and support the use of a range of flexible working patterns to enable staff to balance home and work responsibilities; and we will treat people fairly irrespective of their working arrangements.

16. Payment of Suppliers

16.1 It is Departmental practice to pay for goods and services after receipt and within 30 calendar days of the invoice date. This policy guarantees the satisfactory receipt of goods and services before payment is made, and ensures that the supplier is paid within a reasonable time.

17. Auditor

17.1 The Comptroller and Auditor General is the statutory auditor of the Department for Education and Skills' Financial Statements.

David Normington

Accounting Officer for the Department for Education and Skills

26 November 2002

Statement of Accounting Officer's Responsibilities

Under Section 5 of the Government Resources and Accounts Act 2000 the Department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to the objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Permanent Head of the Department as principal Accounting Officer with overall responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts the principal Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by the Treasury, in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on an ongoing basis.

In addition the Treasury has appointed additional Accounting Officers to be accountable for those parts of the Department's accounts relating to specific requests for resources and the associated assets, liabilities and cash flows. These appointments do not detract from the Head of Department's overall responsibilities as Accounting Officer for the Department's accounts and overall net cash requirement.

The allocation of Accounting Officer responsibilities in the Department is as follows:

Request for Resource 1: Sir Michael Bichard (until 18 May 2001), Mr David Normington (from 19 May 2001), Principal Accounting Officer and Permanent Head of the Department. Responsibility: for employment policy, international employment policy including European Social Fund, civil rights for disabled people, policy on age (with the exception of Article 13 Employment Directive), sponsorship of the Disability Rights Commission has transferred to the Department for Work and Pensions; for implementation of the Article 13 Employment Directive with respect to age, religion and sexual orientation, race equality in employment including Race Relations Employment Advisory Service, Equality Direct and Work Life Balance policy has transferred to the Department for Trade and Industry; for Work Permits (UK) has transferred to the Home Office; and for gender legislation and policy, sponsorship of Equal Opportunities Commission, Kingsmill Review of Women's Employment and Pay, sexual orientation issues (other than Article 13) has transferred to the Cabinet Office.

Request for Resource 2: Responsibility transferred to the Department for Work and Pensions

Request for Resource 3: Ms Naomi Eisenstadt, Additional Accounting Officer: Director of Sure Start Unit

Request for Resource 4: Ms Althea Efunshile, Additional Accounting Officer: Director of the Children and Young People's Unit

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in *Government Accounting*. Under the terms of the Accounting Officers' Memorandum, the relationship between the Department for Education and Skills Principal and Additional Accounting Officers, together with their respective responsibilities is set out in *Government Accounting*.

Provision for non-operating appropriations in aid was decreased by the Winter Supplementary Estimate, Cm 5335 of session 2001–02. This decrease should have been, but was not, included in the Appropriation Act

2002 that authorised the Supplementary Estimate. By agreement with the Treasury these accounts have nonetheless been prepared to reflect the changed provision on the basis that statutory authority is in the process of being sought.

Statement on internal control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, set by the Department'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. Within the Department, I have delegated some of these responsibilities to the Heads of the Sure Start Unit and the Children's Fund as additional Accounting Officers, the relationship between us being set out in a written statement. The Chief Executives of the NDPBs which fall within the Departmental boundary are responsible for the maintenance and operation of the system of internal control in their individual NDPBs, and have signed a statement relating to those systems which are reproduced in the accounts of each body.

The system of internal control is designed to manage rather than eliminate the 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 an ongoing process designed to identify the principal risks to the achievement of Departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I have ensured the necessary procedures were established within the Department by 31 March 2002 to implement Treasury guidance on risk assessment. Further action will be taken in 2002–03 to fully embed these processes and enhance their robustness.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of control. The Department has already established the following processes:

- a management board which meets every month to consider plans and the strategic direction of the Department (the board consists of senior managers in the Department and 2 non-executive members);
- periodic reports from the chairman of the Audit Committee, to the board, concerning internal control;
- regular reports by internal audit, to standards defined in the Government Internal Audit Manual, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's systems of internal control together with recommendations for improvement;
- arranged a regular programme of risk awareness training;
- developed and maintained an organisation-wide register of generic risk and embedded the management of business risk at Divisional level;
- arranged facilitated workshops to identify and manage the major risks facing the organisation;
- embedded project management methodology including risk management and developed risk management guidance for general application across the Department;
- developed a framework for all the Department's Directorates to provide assurance on the internal financial operation.

In the coming year the Department plans to:

- embed risk identification and management into the corporate planning process;
- further enhance the risk framework for the Department including setting up a forum chaired by the Director General for Finance and Analytical Services looking at the significant risks facing the Department in the delivery of business objectives.

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 letter and other reports.

I am satisfied that the core Department has taken appropriate action this year to establish the procedures necessary to implement Treasury guidance. However, I am only able to provide partial assurance on the system of internal control for the wider Department due to the qualified assurances provided by some of our NDPBs.

David Normington
26 November 2002

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 18 to 46 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 26.

Respective responsibilities of the Accounting Officer and Auditor

As described on pages 13-14, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 15 reflects the Department's compliance with Treasury's guidance Corporate Governance and the Statement of internal control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

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 significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Unqualified opinion on the truth and fairness of the financial statements and qualified opinion on the regularity of expenditure arising from irregular payments under the Individual Learning Accounts programme.

As disclosed by the Department in Note 29, the account includes expenditure of £203 million on the Individual Learning Accounts programme of which the Department recognise an element has been subject to improper and fraudulent claims. The Department has estimated this at around £97 million out of total payments since the inception of the scheme of some £274 million. Accordingly I have concluded that this expenditure of £97 million is irregular, as it has not been applied to the purposes intended by Parliament and is not in conformity with the authorities governing it.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department of Education and Skills at 31 March 2002 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- except for expenditure relating to irregular payments under the Individual Learning Accounts programme referred to above, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Details of these matters are set out in my report.

John Bourn
Comptroller and Auditor General

Date 13 January 2003

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

SCHEDULE 1

Summary of Resource Outturn 2001–02

| | Estimate | | | 2001–02 | | | Outturn | | 2000–01 | |
|--|-------------------|------------------|-------------------|-------------------|------------------|-------------------|--|-------------------|--------------------|--|
| | Gross Expenditure | A in A | NET TOTAL | Gross Expenditure | A in A | NET TOTAL | Net total outturn compared to Estimate | | Prior Year Outturn | |
| | | | | | | | saving/ | (excess) | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | | | |
| Request for Resource (Estimate 1 RfR 1) | 19,660,074 | (235,168) | 19,424,906 | 18,703,348 | (199,230) | 18,504,118 | 920,788 | 15,947,162 | | |
| Request for Resource (Estimate 1 RfR 2) | 2,272,155 | — | 2,272,155 | 2,272,155 | — | 2,272,155 | — | — | | |
| Request for Resource (Estimate 1 RfR 3) | 205,278 | — | 205,278 | 133,893 | — | 133,893 | 71,385 | 55,786 | | |
| Request for Resource (Estimate 1 RfR 4) | 100,002 | — | 100,002 | 37,357 | — | 37,357 | 62,645 | — | | |
| Total Resources | 22,237,509 | (235,168) | 22,002,341 | 21,146,753 | (199,230) | 20,947,523 | 1,054,818 | 16,002,948 | | |
| Non-Operating Cost A in A | | | (228,641) | | | (216,437) | | | | |
| Net Cash Requirement | | | 23,520,391 | | | 21,893,500 | | 17,127,246 | | |
| Reconciliation of resources to cash requirement | | | | | | | | | | |
| | | Note | £000 | | | £000 | £000 | | | |
| Total Resources | | | 22,002,341 | | | 20,947,523 | 1,054,818 | | | |
| Capital: | | | | | | | | | | |
| Acquisition of fixed assets | | 11 & 12 | 20,583 | | | 31,953 | (11,370) | | | |
| Disposal of fixed assets | | 5 | — | | | (1,565) | 1,565 | | | |
| Investments | | | — | | | — | — | | | |
| Student Loans issued in year | | 13 | 2,255,600 | | | 2,117,714 | 137,886 | | | |
| Non-Operating Cost A in A | | | (228,641) | | | (216,437) | (12,204) | | | |
| Accrual Adjustments | | | | | | | | | | |
| Non-cash items | | 4 | (723,292) | | | (1,342,781) | 619,489 | | | |
| Changes in working capital | | | | | | | | | | |
| Other than cash | | 14 | 193,800 | | | (120,966) | 314,766 | | | |
| Utilisation of Provisions | | | | | | 478,059 | (478,059) | | | |
| Net Cash Requirement (Schedule 4) | | | 23,520,391 | | | 21,893,500 | 1,626,891 | | | |

Explanation of the variation between request for resources and outturn

Request for Resource 1 – the £920,788,000 underspend is 5% of the Estimate provision. Details of the main over/underspends can be found in the Operating and Financial Review.

Request for Resource 3 – the £71,385,000 underspend is 35% of the Estimate provision. The reason for the variance is the slower than anticipated roll-out of Sure Start programmes.

Request for Resource 4 – the £62,645,000 underspend is 63% of the Estimate provision. The reason for the variance is the slower than anticipated implementation of local Children’s Fund partnerships.

See Note 9 for a breakdown of estimate and outturn by estimate line. Further explanations of the variances can be found in the Operating and Financial Review section of in the Annual Report.

Explanation of the variation between estimate net cash requirement and outturn net cash requirement

The main reason for the £1,626,891,000 variance between the estimated net cash requirement and the actual net cash requirement is due to the £1,054,818,000 underspend on net resources. In addition to this, the other major contributing factors were the underspend on Student loans issued during the year, higher than anticipated non cash costs and a lower than anticipated increase in accruals and prepayments (which are the items included in the estimate of changes in working capital as per the Treasury definition).

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

| | 2001–02 Forecast | | 2001–02 Outturn | |
|---|------------------|-----------------|-----------------|-----------------|
| | Income | <i>Receipts</i> | Income | <i>Receipts</i> |
| | £000 | <i>£000</i> | £000 | <i>£000</i> |
| Operating Income not classified as A in A | 3,000 | <i>3,000</i> | 9,158 | <i>9,075</i> |
| Non operating income not classified as A in A | 30,000 | <i>30,000</i> | 35,839 | <i>32,864</i> |
| | 33,000 | <i>33,000</i> | 44,997 | <i>41,939</i> |

Actual Outturn – resources

Request for Resource 1: Actual amount net resource outturn £18,504,118,484.08. Actual amount of savings in resources over Estimate £920,787,515.92

Request for Resource 3: Actual amount net resource outturn £133,892,720.52. Actual amount of savings in resources over Estimate £71,385,279.48

Request for Resource 4: Actual amount net resource outturn £37,356,522.12. Actual amount of savings in resources over Estimate £62,645,477.88

Actual Outturn – cash

Net cash requirement: Outturn net requirement £21,893,499,630.72, which is £1,626,891,369.28 less than Estimate.

The actual receipts surrenderable to the Consolidated Fund £41,939,204.75

SCHEDULE 2

Operating Cost Statement

for the year ended 31 March 2002

| | Note | 2001–02 | | 2000–01 | |
|---|-------|------------|-------------------|------------|-------------------|
| | | £000 | £000 | £000 | £000 |
| Administration Costs | | | | | |
| Staff costs | 2 | | 129,638 | | 147,807 |
| Other administration costs | 3 | | 110,121 | | 124,213 |
| Gross Administration costs | | | 239,759 | | 272,020 |
| Operating income | 5 | (6,549) | | (12,962) | |
| | 5 | | (6,549) | | (12,962) |
| Net Administration Costs | | | 233,210 | | 259,058 |
| Programme Costs | | | | | |
| Request for Resources 1 | | | | | |
| Expenditure | 4 | 18,313,440 | | 15,745,420 | |
| Less: other programme income | 5 | (201,839) | 18,111,601 | (155,921) | 15,589,499 |
| Request for Resources 3 | | | | | |
| Expenditure | 4 | 130,216 | | 53,880 | |
| Less: income | 5 | — | 130,216 | — | 53,880 |
| Request for Resources 4 | | | | | |
| Expenditure | 4 | 35,020 | | — | |
| Less: income | 5 | — | 35,020 | — | — |
| Net Programme Costs | 4 | | 18,276,837 | | 15,643,379 |
| NET OPERATING COST | 7 & 8 | | 18,510,047 | | 15,902,437 |
| Adjustment for transfer of Estimate cover | 9 | | 2,428,318 | | |
| NET RESOURCE OUTTURN | 7 & 8 | | 20,947,523 | | 16,002,948 |

Statement of Recognised Gains and Losses

for the year ended 31 March 2002

| | 2001–02 | | 2000–01 | |
|--|---------|-------|---------|-------|
| | £000 | | £000 | |
| Unrealised loss/(gain) on revaluation of tangible fixed assets | | (814) | | (328) |
| | | (814) | | (328) |

All income and expenditure reported in the Operating Cost Statement is derived from continuing operations, apart from the payment to Department of Work and Pensions, the Home Office, Department of Trade and Industry and the Cabinet Office under the Machinery of Government Changes.

SCHEDULE 3**Balance Sheet**

as at 31 March 2002

| | Note | 31 March 2002 | | 31 March 2001 | |
|---|------|---------------|--------------------|---------------|------------------|
| | | £000 | £000 | £000 | £000 |
| Fixed Assets | | | | | |
| Tangible assets | 11 | 72,622 | | 53,944 | |
| Intangible assets | 12 | 388 | | — | |
| Loans | 13 | 6,864,360 | | 5,037,294 | |
| | | | 6,937,370 | | 5,091,238 |
| Current Assets | | | | | |
| Stocks | 15 | 799 | | 484 | |
| Debtors | 16 | 216,586 | | 240,889 | |
| Loans repayable within 1 year | 16 | 341,760 | | 269,952 | |
| Cash at bank and in hand | 17 | 193,475 | | 8,889 | |
| | | 752,620 | | 520,214 | |
| Creditors (due within one year) | 18 | (658,567) | | (374,580) | |
| | | (658,567) | | (374,580) | |
| Net Current Assets | | | 94,053 | | 145,634 |
| Total Assets less Current Liabilities | | | 7,031,423 | | 5,236,872 |
| Provisions for Liabilities and Charges | 19 | | (3,118,020) | | (2,547,609) |
| | | | 3,913,403 | | 2,689,263 |
| Taxpayers' Equity | | | | | |
| General Fund | 20 | | 3,914,564 | | 2,689,610 |
| Revaluation reserve | 21 | | (1,161) | | (347) |
| | | | 3,913,403 | | 2,689,263 |

David Normington
Accounting Officer

Date 26 November 2002

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2002

| | <u>2001–02</u> | <u>2000–01</u> |
|---|---------------------|----------------|
| | £000 | £000 |
| Net cash outflow from operating activities (a) | (17,526,583) | (15,250,865) |
| Capital expenditure and financial investment (b) | (1,896,638) | (1,750,512) |
| Payments of amounts due to the Consolidated Fund | (45,613) | (254,326) |
| Financing from the Consolidated Fund (c) | 19,653,420 | 17,746,848 |
| Increase/(Decrease) in cash in the period | 184,586 | 491,145 |

Notes:

- (a) See the table below giving a reconciliation of operating cost to operating cash flows.
(b) See the table below giving an analysis of capital expenditure and financial investment.
(c) See the table below giving an analysis of financing and a reconciliation to the net cash requirement.

Reconciliation of operating cost to operating cash flows

| | | |
|---|-------------------|-------------------|
| Net operating cost | 18,510,047 | 15,902,437 |
| Adjust for non cash transactions (note 4) | (1,342,781) | (816,335) |
| Adjust for movements in working capital other than cash (note 14) | (118,742) | (200,404) |
| Utilisation of provisions | 478,059 | 365,167 |
| Net cash outflow from operating activities | 17,526,583 | 15,250,865 |

Analysis of capital expenditure and financial investment

| | | |
|---|------------------|------------------|
| Intangible fixed asset additions (note 12) | 440 | — |
| Tangible fixed assets additions (note 11) | 31,469 | 11,069 |
| Purchase of fixed assets transferred to DWP | 44 | — |
| Proceeds from disposal of fixed assets (note 5) | (1,565) | (375) |
| Loans to other bodies (note 13) | 2,117,714 | 1,899,777 |
| Repayment of Loans (note 13) | (251,464) | (159,959) |
| Net cash outflow from investing activities | 1,896,638 | 1,750,512 |

Analysis of financing and reconciliation to the net cash requirement

| | | |
|--|-------------------|-------------------|
| From Consolidated Fund – current year ¹ | 22,064,281 | — |
| From Consolidated Fund – prior year ² | 16,876 | 17,746,848 |
| Advances from the Contingencies Fund | 581 | (1,570) |
| Repayment to the Contingencies Fund | — | 1,570 |
| Transfer to DWP | (2,405,662) | — |
| Transfer to Home Office | (4,590) | — |
| Transfer to DTI | (8,832) | — |
| Transfer to Cabinet Office | (9,234) | — |
| Net financing | 19,653,420 | 17,746,848 |
| (Increase)/Decrease in cash | (184,586) | (491,145) |
| Net cash flows other than financing | 19,468,834 | 17,255,703 |

Adjustments for payments and receipts not related to Supply

| | | |
|--|-------------------|-------------------|
| CFERs received in year and not paid over | 20,933 | 24,585 |
| CFERs received in prior year and paid over | (24,585) | (153,042) |
| Transfer to DWP | 2,405,662 | — |
| Transfer to Home Office | 4,590 | — |
| Transfer to DTI | 8,832 | — |
| Transfer to Cabinet Office | 9,234 | — |
| Net cash requirement (Schedule 1) | 21,893,500 | 17,127,246 |

Notes:

¹ Amount of grant actually issued to the department to support the net cash requirement = £ 22,064,280,739

² Amount of grant actually issued to the department to support the prior year net cash requirement = £17,746,848,587

SCHEDULE 5

Resources by Departmental Aim and Objectives

For the year ended 31 March 2002

AIM: To give everyone the chance, through education, training and work, to realise their full potential and build an inclusive and fair society and a competitive economy

| | <u>Gross</u> | <u>2001–02</u> <u>Income</u> | <u>Net</u> | <u>Gross</u> | <u>2000–01</u> <u>Income</u> | <u>Net</u> |
|--|-------------------|---------------------------------|-------------------|-------------------|---------------------------------|-------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Objective One | | | | | | |
| Ensuring that all young people reach 16 with the skills, attitudes and personal qualities that will give them a secure foundation for lifelong learning, work and citizenship in a rapidly changing world. | 5,639,411 | (15,662) | 5,623,749 | 4,523,514 | (14,270) | 4,509,244 |
| Objective two | | | | | | |
| Developing in everyone a commitment to lifelong learning, so as to enhance their lives, improve their employability in a changing labour market and create the skills that our economy and employers need. | 13,079,024 | (192,726) | 12,886,298 | 11,342,104 | (259,677) | 11,082,427 |
| Objective three | | | | | | |
| To help people without a job into work | — | — | — | 311,260 | (494) | 310,766 |
| Net Operating Costs | <u>18,718,435</u> | <u>(208,388)</u> | <u>18,510,047</u> | <u>16,176,878</u> | <u>(274,441)</u> | <u>15,902,437</u> |

The 2000–01 comparative figures include Objective 3 income and expenditure for discontinued programmes that have not transferred to the Department for Work and Pensions under the Machinery of Government changes. See note 22 for further information on Schedule 5.

Notes to the Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs.

1.2 Basis of Consolidation

The department has a number of Executive Non-Departmental Public Bodies (NDPBs). However, as they are deemed to be outside the departmental boundary their results have not been consolidated into these accounts.

1.3 Tangible Fixed Assets

Freehold land and buildings have been restated at current cost using professional valuations every 5 years and appropriate indices in intervening years. Other tangible assets have been stated at current cost using appropriate indices. The minimum level for capitalisation of a tangible fixed asset is £2,500. In the case of IT equipment and furniture all items recorded as capital expenditure are capitalised and if they fall below the £2,500 threshold they are bulked together and recorded as bulk assets.

1.4 Leases

Operating leases are charged to the Operating Cost Statement as expenditure is incurred. The Department does not currently hold any finance leases.

1.5 Depreciation

Freehold land is not depreciated.

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

| | |
|----------------------|----------------|
| Freehold buildings | up to 50 years |
| Furniture & Fittings | 10 years |
| Plant and Machinery | 3–10 years |
| Computer Equipment | 3–7 years |
| Vehicles | 5–8 years |
| Telecommunications | 8–10 years |

A residual value of 20% of the original purchase price is applied to all vehicles purchased.

1.6 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the operating cost statement.

1.7 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,500 or more is incurred. The software licences are amortised over 2–3 years.

Notes to the Accounts—*continued*

1.8 Investments

The Department currently makes only two forms of loan, namely; loans to students via the Student Loan Company and; loans to schools to fund capital projects. The loans to schools fall into two categories. The first are issued under Schedule 3 of the Schools Standards and Framework Act 1998 (formerly known as Section 105 loans), and the second are issued under Section 255 loans formerly issued by the Funding Agency for Schools (FAS).

Loans to students are included in the balance sheet at their revalued cost, which is calculated each year utilising the Retail Price Index.

Loans issued under Schedule 3 are issued to Voluntary Schools. The value shown on the balance sheet represents the principal outstanding at 31 March.

Section 255 loans were issued to grant maintained schools by FAS. Although new loans are no longer issued, schools continue to repay the principal and interest to the Department. The value shown on the balance sheet represents the principal outstanding at 31 March.

1.9 Stocks and work in progress

Stocks and work in progress are valued as follows:

- a finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value open value and at net realisable value when they either cannot or will not be used;
- b work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

1.10 Research and Development

Expenditure on research and development has been treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development is depreciated over the life of the associated research project or according to the asset category if the asset is to be used for subsequent production work.

1.11 Operating Income

Operating income is income which relates directly to the operating activities of the department. It comprises of other income such as that from investments as well as fees and charges for services provided, on a full cost basis, to external customers. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund that HM Treasury has agreed should be treated as operating income.

1.12 Administration and Programme Expenditure

The operating cost statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department as defined under the administration cost control regime, together with associated operating income. Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department.

1.13 Capital Charge

A charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the Government's standard rate of 6% in real terms on the average balances of all assets less liabilities, except for:

- Donated assets;

Notes to the Accounts—continued

- Consolidated Fund balances
- Paymaster bank balances.

1.14 Foreign Exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used.

1.15 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

1.16 Early Departure Costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The department provides in full for this cost when the early retirement programme has been announced and is binding on the department. The department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote.

1.17 Grants Payable

The majority of grants made by the Department are recorded as expenditure in the period in which the claim is paid, as the grant funding cannot be directly related to activity in a specific period. The claims are deemed to be the only appropriate and measurable activity that truly creates an entitlement for the recipient. However, recognition of the entitlement of grant varies according to the individual programme. Where it is possible to measure grants paid to specific activity in the previous period, for example TECs and Careers Service providers, the grants paid are accrued in the Operating Cost Statement and shown as a liability on the Balance Sheet.

2. Staff Numbers and Costs**a. Staff costs consist of:**

| | 2001–02 | | | | 2000–2001 |
|---------------------|----------------|----------------|------------|------------------|----------------|
| | Total | Officials | Ministers | Special Advisers | Total |
| | £000 | £000 | £000 | £000 | £000 |
| Wages and salaries | 109,687 | 109,255 | 301 | 131 | 128,413 |
| Social Security | 7,157 | 7,113 | 31 | 13 | 7,109 |
| Other pension costs | 12,794 | 12,785 | — | 9 | 12,285 |
| | 129,638 | 129,153 | 332 | 153 | 147,807 |

The PCSPS is an unfunded multi-employer defined benefit scheme but the Department for Education and Skills is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999 and details can be found in a separate scheme statement of the PCSPS.

For 2001–02, normal employer contributions of £12,793,713 were payable to the PCSPS (2000–01: £12,284,901) at rates in the range 11 to 19.5% of pensionable pay. It has been agreed that contributions will remain at that level for the next two years. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experiences of the scheme.

Notes to the Accounts—continued

b. The average number of whole-time equivalent persons employed (including senior management, ministers and special advisors) during the year was as follows:

| | 2001–02 | 2000–2001 |
|--------------|--------------|--------------|
| Objective | | |
| 1 | 2,425 | 2,003 |
| 2 | 1,842 | 2,109 |
| 3 | — | — |
| TOTAL | 4,267 | 4,112 |

c. The salary and pension entitlements of Ministers of the Department were as follows:

| Name and title | Age Yrs | 2001–02 | Real increase in pension at 65 £'000 | Total accrued pension at age 65 at 31 March 2002 £'000 | Benefits-in- kind (rounded to the nearest £100) |
|--|------------|-----------------------------------|---|---|--|
| | | Ministerial Salary Received | | | |
| Rt. Hon David Blunkett MP <i>Secretary of State (Until 08.06.01)</i> | 54 | £ 12,493 | — | — | — |
| Rt. Hon Estelle Morris MP <i>Secretary of State</i> | 49 | £61,924 | 0-2.5 | 0-5 | — |
| Margaret Hodge MBE MP <i>Minister of State</i> | 56 | £33,699 | 0-2.5 | 0-5 | — |
| Tessa Blackstone <i>Minister of state (Until 10.06.01)</i> | 59 | £ 21,691 | — | — | — |
| Tessa Jowell MP <i>Minister of State (Until 10.06.01)</i> | 54 | £8,839 | — | — | — |
| Jacqui Smith MP <i>Parliamentary Under Secretary of State (Until 10.06.01)</i> | 39 | £6,709 | — | — | — |
| Malcolm Wicks MP <i>Parliamentary Under Secretary of State (Until 10.06.01)</i> | 54 | £6,709 | — | — | — |
| Michael Wills MP <i>Parliamentary Under Secretary of State (Until 10.06.01)</i> | 49 | £6,709 | — | — | — |
| Stephen Timms MP <i>Minister of State (From 11.06.01)</i> | 46 | £26,517 | 0-2.5 | 0-5 | — |
| Catherine Ashton <i>Parliamentary Under Secretary of State (From 11.06.01)</i> | 46 | £70,419 | 0-2.5 | 0-5 | — |
| John Healey MP <i>Parliamentary Under Secretary of State (From 11.06.01)</i> | 42 | £21,617 | 0-2.5 | 0-5 | — |
| Ivan Lewis MP <i>Parliamentary Under Secretary of State (From 11.06.01)</i> | 35 | £21,617 | 0-2.5 | 0-5 | — |

Pension benefits to Ministers are provided by the Ministerial Pension Scheme (MPS) which is part of the Parliamentary Contributory Pension Fund (PCPF) for Members of Parliament. The MPS provides benefits on a 'final salary' basis with a $\frac{1}{50}$ accrual rate, taking account of all service as a Minister. Benefits are payable on retirement from Ministerial office on or after age of 65, or on the payment of benefits under the main PCPF scheme. Members pay contributions of 6% of their Ministerial salary. There is also an employer contribution of 7.5% of the Ministerial salary paid by the Exchequer. In the event of retirement because of serious ill health, the MPS pension is bought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Minister's pension. On death in service, the Ministerial Pensions Scheme provides for a lump sum gratuity of three times the ministerial salary. Pensions increase in payment in line with changes in the Retail Price Index. On retirement, it is possible to commute part of the pension for a lump sum.

Notes to the Accounts—*continued*

d. The salary and pension entitlements of the most senior managers of the Department were as follows:

| Name and title | Age Yrs | Salary ^a £'000 | Real increase in pension at 60 ^b £'000 | Total accrued pension at age 60 at 31 March 2002 £'000 | Benefits-in- kind (rounded to the nearest £100) ^c |
|---|------------|------------------------------|--|---|---|
| Sir Michael Bichard <i>Permanent Secretary (Until 31.05.01)</i> | 55 | 55-60 | 0-2.5 | 15-20 | — |
| Mr David Normington <i>Permanent Secretary</i> | 50 | 125-130 | 5-7.5 | 45-50 | — |
| Mr Peter Shaw <i>Director General</i> | 52 | 115-120 | 2.5-5 | 40-45 | — |
| Mr Nick Stuart <i>Director General (Until 07.09.01)</i> | 59 | 55-60 | 0-2.5 | 30-35 | — |
| Mr Peter Makeham <i>Director General</i> | 54 | 105-110 | 5-7.5 | 40-45 | — |
| Mrs Susan Thomas <i>Director General</i> | 50 | 95-100 | 0-2.5 | 0-5 | — |
| Mr Peter Housden <i>Director General (From 01.11.01)</i> | 51 | 50-55 | 0-2.5 | 0-5 | 600 |
| Mrs Janice Shiner <i>Director General (From 07.01.02)</i> | 51 | 20-25 | 0-2.5 | 0-5 | — |
| Mr Peter Lauener <i>Director General (From 07.09.01 to 06.01.02)</i> | 47 | 30-35 | 2.5-5 | 20-25 | — |
| Mrs Helen Williams <i>Director General (From 21.05.01 to 31.10.01)</i> | 51 | 40-45 | 2.5-5 | 30-35 | — |
| Mr Peter Wanless <i>Director</i> | 37 | 80-85 | 2.5-5 | 15-20 | — |

^a 'Salary' includes gross salary; performance pay or bonuses; reserved rights to London Weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowances to the extent that is subject to UK taxation.

^b Officials' pension benefits are provided through the Principal Civil Service Scheme (PCSPS). This is a statutory scheme which provides benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of $\frac{1}{80}$ of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions are increased in payments in line with the Retail Price Index. On death, pensions are payable to the surviving spouses at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

^c The estimated monetary value of benefits in kind covers any benefits provided and treated by the Inland Revenue as taxable income. An interest free advance of salary for House Purchase loan was made to a Director General. The outstanding balance at 31 March 2002 was £59,500. The notional interest on this loan is regarded as a taxable benefit.

In addition to the directors costs above, one of the Department's non-executive board members received £17,000 remuneration during the year. The second non-executive board member did not receive any remuneration directly from the Department. Permission has not been sought to disclose individual's details.

Notes to the Accounts—*continued*

3. Other Administration Costs

| | <u>2001–02</u> | | <u>2000–01</u> |
|--|----------------|--------|----------------|
| | <u>£000</u> | | <u>£000</u> |
| Administration costs | | | |
| Rentals under operating leases: | | | |
| Hire of plant and machinery | 626 | | 489 |
| Other operating leases | 19,449 | 20,075 | 19,409 |
| Non-cash items (administration costs): | | | |
| Depreciation and Amortisation of fixed assets | | | |
| Civil Estate | 813 | | 914 |
| Other tangible fixed assets | 7,256 | | 9,024 |
| Intangible fixed assets | 52 | | — |
| Permanent diminution in fixed asset values | 1,063 | | 3,475 |
| (Profit)/loss on disposal of fixed assets | 1,277 | | (54) |
| Non chargeable services received | — | | 320 |
| Cost of capital charge: | | | |
| Civil Estate | 1,885 | | 2,298 |
| Other items | 116 | | 125 |
| Auditor's remuneration | 350 | | 429 |
| Provisions: | | | |
| Provided in year | 5,799 | | |
| Released unused | (417) | | |
| Unwinding of discount | 2,085 | | |
| Non cash income | | | (5,296) |
| Asset Transfers in | | | 27 |
| Other non cash items charged to salaries (decrease in early release provision) | | | (4,512) |
| Total administration non cash items | 20,279 | | 6,750 |
| Other expenditure | 69,767 | | 97,565 |
| Other administration costs | <u>110,121</u> | | <u>124,213</u> |

The auditor's remuneration represents the cost of the audit of the Financial Statements carried out by the Comptroller and Auditor General. The auditor received no remuneration for non-audit work.

4. Net Programme Costs

| | <u>2001–02</u> | <u>2000–01</u> |
|--|-------------------|-------------------|
| | <u>£000</u> | <u>£000</u> |
| Current grants and other current expenditure | 18,265,859 | 15,677,693 |
| Cost of Capital on Programmes | 212,817 | 121,607 |
| Gross programme spend | 18,478,676 | 15,799,300 |
| less programme income | (201,839) | (155,921) |
| | <u>18,276,837</u> | <u>15,643,379</u> |
| Included in programme costs are the following non- cash items | | |
| Cost of Capital on Programmes | 212,817 | 121,607 |
| Provisions: | | |
| Provided in year | 856,432 | 795,196 |
| Release of Provision | (13,192) | 5,781 |
| Unwinding of discount | 198,953 | 100,794 |
| Student Loans capitalised interest | (145,627) | (101,473) |
| Student loans domicile Adjustment | 114,125 | (45,707) |
| Admin. charges applied to Student Loans | (2,312) | (1,763) |
| Section 255 loan written-off | — | 85 |
| SLC Interest Subsidy Inflation Adj | 115,815 | 76,953 |
| | 1,337,011 | |
| Elimination of MOG | 65,776 | — |
| ESF PY Claim on Reserve Adj | (80,285) | (142,461) |
| Total programme non cash items | 1,322,502 | 809,585 |
| Total non cash items | <u>1,342,781</u> | <u>816,335</u> |

Notes to the Accounts—*continued*

5. Income and Appropriation in Aid

Operating income

Operating income not appropriated in aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 7). In 2001–02, all operating income not classified as A in A was within public expenditure.

| | 2001–02 | | | |
|---|---|------------------------|------------------------------------|---|
| | Resource Outturn | | Operating cost statement | |
| | Netted off gross expenditure in sub-head | Appropriated in Aid | Payable to Consolidated Fund | Income Included in Operating Cost Statement |
| | £000 | £000 | £000 | £000 |
| Operating income analysed by classification and activity, is as follows: | | | | |
| Administration income: | | | | |
| Allowable within admin cost limit | | (2,263) | | (2,263) |
| Fees & charges to external customers | | (1) | | (1) |
| Other miscellaneous | | (4,285) | | (4,285) |
| | — | (6,549) | — | (6,549) |
| Programme income: | | | | |
| Other income | — | (192,681) | (9,158) | (201,839) |
| Total | — | (199,230) | (9,158) | (208,388) |

| | 2000–01 | | | |
|---|---|------------------------|------------------------------------|---|
| | Resource Outturn | | Operating cost statement | |
| | Netted off gross expenditure in sub-head | Appropriated in Aid | Payable to Consolidated Fund | Income Included in Operating Cost Statement |
| | £000 | £000 | £000 | £000 |
| Operating income analysed by classification and activity, is as follows: | | | | |
| Administration income: | | | | |
| Allowable within admin cost limit | | (2,144) | | (2,144) |
| Fees & charges to external customers | | (788) | | (788) |
| Other miscellaneous | | (10,030) | | (10,030) |
| | — | (12,962) | — | (12,962) |
| Programme income: | | | | |
| Other income | — | (55,410) | (100,511) | (155,921) |
| Total | — | (68,372) | (100,511) | (168,883) |

Notes to the Accounts—continued

Non-operating income not classified as A in A

| | 2001–02 | | 2000–01 | |
|------------------------|---------|----------|---------|----------|
| | Income | Receipts | Income | Receipts |
| | £000 | £000 | £000 | £000 |
| Student Loans interest | 35,027 | 32,864 | 25,358 | 23,661 |

The department received interest on student loans which is not regarded as income for the department and is surrendered to the Consolidated Fund

Non-operating appropriations in aid

| | | | | |
|--|----------------|----------------|----------------|----------------|
| Principal repayments of student loans | 215,166 | 193,587 | 133,128 | 145,347 |
| Principal repayments of loans to schools | 1,271 | 1,271 | 1,473 | 1,473 |
| Proceeds from disposal of fixed assets | 1,565 | 1,565 | 375 | 375 |
| | <u>218,002</u> | <u>196,423</u> | <u>134,976</u> | <u>147,195</u> |

An analysis of income from services provided to external and public sector customer is as follows:

| | 2001–02 | | | 2000–2001 | | |
|--|----------------|--------------|-----------------------|--------------|------------|-----------------------|
| | Income | Full Cost | Surplus/ (Deficit) | Income | Full Cost | Surplus/ (Deficit) |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Careers and Occupational Information Centre (COIC) | (1,036) | 1,275 | 239 | (788) | 884 | 96 |
| | <u>(1,036)</u> | <u>1,275</u> | <u>239</u> | <u>(788)</u> | <u>884</u> | <u>96</u> |

6. Administration Cost Limits

The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

| | 2001–02 | | 2000–01 | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | Outturn | Limits | Outturn | Limits |
| | £000 | £000 | £000 | £000 |
| Request for Resources 1 (net limit) | 214,145 | 219,730 | 288,871 | 275,035 |
| Request for Resources 3 (gross limit) | 3,677 | 3,890 | 1,906 | 2,060 |
| Request for Resources 4 (gross limit) | 2,337 | 2,491 | — | — |
| | <u>220,159</u> | <u>226,111</u> | <u>290,777</u> | <u>277,095</u> |

7. Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

| | 2001–02 | 2000–01 |
|---|-------------------|-------------------|
| | £000 | £000 |
| Net operating cost (note a) | 18,510,047 | 15,902,437 |
| Add: – operating income not classified as A in A and not in public expenditure (note 5) (for DfES this is Student Loan Principle CFERs) | 35,839 | 23,661 |
| – credit Approvals and ERDF and other DETR | 565,200 | 547,502 |
| Less: – operating income not classified as A in A and not in public expenditure (note 5) (for DfES this is Student Loan Principle CFERs) | (35,839) | (23,661) |
| – credit approvals and ERDF and other DETR | (565,200) | (547,502) |
| Add: – Excess A in A | | |
| – operating income not classified as A in A but within public expenditure (note 5) (All other CFERs not including student loans) | 9,158 | 100,511 |
| Add: – transfer of Estimate cover in respect of the functions transferred to DWP, DTI, Home Office and Cabinet Office | 2,428,318 | — |
| Net resource outturn (note a) | <u>20,947,523</u> | <u>16,002,948</u> |

Note:

a Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

Notes to the Accounts—*continued*

8. Analysis of Net Operating Cost by Spending Body

| | 2001–02 | | 2000–01 |
|--|-------------------|-------------------|-------------------|
| | Budget | Outturn | Outturn |
| | £000 | £000 | £000 |
| Spending Body: | | | |
| Non-Departmental Public Bodies (NDPBs): | | | |
| Adult Learning Inspectorate (ALI) | 21,500 | 15,358 | — |
| Further Education Funding Council (FEFC) | — | — | 3,567,550 |
| Higher Education Funding Council for England (HEFCE) | 4,673,212 | 4,680,194 | 4,337,709 |
| Learning and Skills Council (LSC) | 5,457,816 | 5,377,099 | — |
| National College for School Leadership (NCSL) | 28,349 | 26,500 | — |
| Qualifications and Curriculum Authority (QCA) | 54,269 | 71,173 | 60,039 |
| Student Loans Company Ltd (SLC) | 33,030 | 27,650 | 551,613 |
| Teacher Training Agency (TTA) | 417,272 | 411,266 | 311,177 |
| British Educational Communications and Technology Agency (BETCA) | 4,843 | 4,844 | 4,835 |
| Investors in People (IiP UK) | 1,617 | 1,681 | 1,577 |
| Education Transfer Council (ETC) | — | — | 542 |
| Public Corporations: | | | |
| General Teaching Council (GTC) | 7,400 | 9,468 | — |
| Local Authorities | 4,079,883 | 4,469,466 | 1,373,196 |
| Training and Enterprise Councils | — | — | 1,164,857 |
| Other DfES | 4,794,832 | 3,415,348 | 4,529,342 |
| Total | 19,574,023 | 18,510,047 | 15,902,437 |

Notes to the Accounts—continued

9. Analysis of Net Resource Outturn and Net Operating Cost by Function and Reconciliation to Operating Cost Statement

| 2001–02 | | | | | | | | Net Total |
|---|----------------|------------------|----------------------------|-------------------|------------------|-------------------|-------------------|--------------------------------|
| Admin. | Other current | Grants | Gross Resource Expenditure | A in A | Net Total | Estimate | Estimate | Outturn Compared with Estimate |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Request for Resources – 1 | | | | | | | | |
| A – Schools | 116,235 | 428,483 | 544,718 | (10,451) | 534,267 | 1,162,944 | 628,677 | |
| B – Post 16 | 446,303 | 582,648 | 1,028,951 | (192,352) | 836,599 | 1,047,034 | 210,435 | |
| C – Student Support | | 1,336,930 | 1,336,930 | | 1,336,930 | 1,476,577 | 139,647 | |
| D – (ESF transferred to DWP) | | | | | | | | |
| E – (ESF transferred to DWP) | | | | | | | | |
| F – (Employment & Equality MOG transfer) | | | | | | | | |
| G – Admin Costs | 211,808 | 26,765 | 889 | 239,462 | (6,830) | 232,632 | 244,507 | 11,875 |
| H – FE staff compensation | | 11,489 | 11,489 | | | 11,489 | 11,161 | (328) |
| I – LA schools payments | | 2,888,133 | 2,888,133 | (198) | 2,887,935 | 2,473,314 | (414,621) | |
| J – Mandatory awards | | 126,891 | 126,891 | | 126,891 | 121,800 | (5,091) | |
| K – (ESF transferred to DWP) | | | | | | | | |
| L – (ESF payments transferred to DWP) | | | | | | | | |
| M – Adult Education | | 112,712 | 112,712 | | 112,712 | 170,925 | 58,213 | |
| N – (New Deal transferred to DWP) | | | | | | | | |
| O – non cash admin costs | 3,620 | | 3,620 | | 3,620 | 12,389 | 8,769 | |
| P – VA schools interest repayment | | | | (291) | (291) | (294) | (3) | |
| Q – Schools capital grants | | 1,890,255 | 1,890,255 | | 1,890,255 | 2,111,515 | 221,260 | |
| R – Student Loans and capital grants | | 10,362,825 | 10,362,825 | 10,892 | 10,373,717 | 10,435,728 | 62,011 | |
| S – (Equality progs MOG transfers) | | | | | | | | |
| T – Loss on disposal of assets | 1,199 | | 1,199 | | 1,199 | 1,200 | 1 | |
| U – (ESF receipts transferred to DWP) | | | | | | | | |
| V – Transfer payment to DWP | 133,507 | | 133,507 | | 133,507 | 133,507 | | |
| W – Transfer payment to Home Office | 4,590 | | 4,590 | | 4,590 | 4,590 | | |
| X – Transfer payment to DTI | 8,832 | | 8,832 | | 8,832 | 8,775 | (57) | |
| Y – Transfer payment to Cabinet Office | 9,234 | | 9,234 | | 9,234 | 9,234 | | |
| Total | 215,428 | 746,665 | 17,741,255 | 18,703,348 | (199,230) | 18,504,118 | 19,424,906 | 920,788 |
| Request for Resources – 2 (Transferred to DWP) | | | | | | | | |
| Function A | | | | | | | | |
| Function B | | | | | | | | |
| Function C | | | | | | | | |
| Function D | | | | | | | | |
| Function E | | | | | | | | |
| Function G | | | | | | | | |
| Function H | | | | | | | | |
| Function I – Transfer Resources to DWP | | 2,272,155 | 2,272,155 | | 2,272,155 | 2,272,155 | | |
| Total | — | 2,272,155 | — | 2,272,155 | — | 2,272,155 | 2,272,155 | — |
| Request for Resources – 3 | | | | | | | | |
| A – Sure Start | 3,677 | 3,297 | 105,447 | 112,421 | | 112,421 | 125,833 | 13,412 |
| B – Sure Start Capital Grants | | | 21,472 | 21,472 | | 21,472 | 79,445 | 57,973 |
| Total | 3,677 | 3,297 | 126,919 | 133,893 | — | 133,893 | 205,278 | 71,385 |
| Request for Resource – 4 | | | | | | | | |
| A – Children’s Fund | 2,337 | | 35,020 | 37,357 | | 37,357 | 100,002 | 62,645 |
| Total | 2,337 | — | 35,020 | 37,357 | — | 37,357 | 100,002 | 62,645 |
| Resource Outturn | 221,442 | 3,022,117 | 17,903,194 | 21,146,753 | (199,230) | 20,947,523 | 22,002,341 | 1,054,818 |
| Reconciliation to Operating Cost Statement | | | | | | | | |
| Non – Supply Expenditure | | | | | | | | |
| Non – A in A Operating Income | | | | | (9,158) | (9,158) | | |
| Excess A in A | | | | | | | | |
| Transfer to DWP | | (133,507) | | (133,507) | | (133,507) | | |
| Transfer to Home Office | | (4,590) | | (4,590) | | (4,590) | | |
| Transfer to DTI | | (8,832) | | (8,832) | | (8,832) | | |
| Transfer to Cabinet Office | | (9,234) | | (9,234) | | (9,234) | | |
| Transfer of ES to DWP | | (2,272,155) | | (2,272,155) | | (2,272,155) | | |
| Gross Operating Expenditure | | | | 18,718,435 | | | | |
| Operating Income | | | | | (208,388) | | | |
| Net Operating Cost | | | | | | 18,510,047 | | |

Notes to the Accounts—continued

Functions represent the disaggregation of Request for Resources for control purposes and parliamentary approval. They correspond to objectives as follows:

Objective 1 – Request for Resource 1 Functions A, I, P and Q; Request for Resource 3 Function A and B ; Request for Resource 4 Function A

Objective 2 – Request for Resource 1 Functions B, C, D, E, J, K, L, ,M, R, and U

Objective 3 – Request for Resource 1 Functions F, N and S; Request for Resource 2 Functions A – I

In addition Request for Resource 1 Functions G, H, O and T are activities which support all three objectives.

| 2000–01 | | | | | | | |
|----------------------------------|----------------|----------------|-------------------|----------------------------|------------------|-------------------|-------------------|
| | Admin. | Other current | Current rants | Gross Resource Expenditure | A in A | Net Total | Net Total |
| | | £000 | £000 | £000 | £000 | £000 | Estimate |
| | | | | | | | £000 |
| | | | | | | | £000 |
| Request for Resources – 1 | | | | | | | |
| Function A | | 69,408 | 800,795 | 870,203 | (5,734) | 864,469 | 1,067,503 |
| Function B | | 242,192 | 1,684,533 | 1,926,725 | (34,727) | 1,891,998 | 1,972,227 |
| Function C | | | 1,117,290 | 1,117,290 | | 1,117,290 | 1,376,234 |
| Function D | | | | — | | — | 1 |
| Function E | | | 82,159 | 82,159 | | 82,159 | 120,000 |
| Function F | | (15,644) | 264,064 | 248,420 | | 248,420 | 383,712 |
| Function G | 247,878 | 32,894 | 981 | 281,753 | (12,962) | 268,791 | 314,120 |
| Function H | | | 5,223 | 5,223 | | 5,223 | 5,480 |
| Function I | | | 1,661,866 | 1,661,866 | (129) | 1,661,737 | 1,756,041 |
| Function J | | | 317,999 | 317,999 | | 317,999 | 291,800 |
| Function K | | | | — | | — | 1 |
| Function L | | | 23,399 | 23,399 | | 23,399 | 30,000 |
| Function M | 574 | 5,204 | | 5,778 | | 5,778 | 5,588 |
| Function N | 3,629 | | 6,133 | 9,762 | | 9,762 | 21,879 |
| Function O | 12,948 | | (22,182) | (9,234) | | (9,234) | 6,521 |
| Function P | | | | — | | — | (294) |
| Function Q | 702,290 | 8,209 | 1,019,372 | 1,729,871 | (398) | 1,729,473 | 1,896,458 |
| Function R | | | | — | (105,558) | (105,558) | (149,998) |
| Function S | | 116,607 | 7,679,857 | 7,796,464 | (14,422) | 7,782,042 | 8,002,284 |
| Function T | | 14,946 | 5,479 | 20,425 | | 20,425 | 7,488 |
| Function U | | | 25,996 | 25,996 | | 25,996 | 113,016 |
| Function V | | | 4,926 | 4,926 | | 4,926 | 4,500 |
| Function W | | | 2,067 | 2,067 | | 2,067 | 2,456 |
| Total | 967,319 | 473,816 | 14,679,957 | 16,121,092 | (173,930) | 15,947,162 | 17,227,017 |
| Request for Resources – 2 | | | | | | | |
| Function A | | | | — | | — | — |
| Function B | | | | — | | — | — |
| Function C | | | | — | | — | — |
| Function D | | | | — | | — | — |
| Function E | | | | — | | — | — |
| Function F | | | | — | | — | — |
| Total | — | — | — | — | — | — | — |
| Request for Resources – 3 | | | | | | | |
| Function A | 1,906 | 894 | 52,986 | 55,786 | | 55,786 | 108,796 |
| Function B | | | — | — | | — | — |
| Function C | | | — | — | | — | 74,579 |
| Total | 1,906 | 894 | 52,986 | 55,786 | — | 55,786 | 183,375 |
| Resource Outturn | 969,225 | 474,710 | 14,732,943 | 16,176,878 | (173,930) | 16,002,948 | 17,410,392 |
| Non-Supply Expenditure | | | | | | — | |
| Non-A in A Operating Income | | | | | | (100,511) | |
| Excess A in A | | | | | | | |
| Net Operating Cost | | | | | | 15,902,437 | |

Functions represent the disaggregation of Request for Resources for control purposes and parliamentary approval. They correspond to objectives as follows:

Objective 1 – Request for Resource 1 Functions A, I, P, Q and W; Request for Resource 3 Function A.

Objective 2 – Request for Resource 1 Functions B, C, D, E, J, K, L, M, R, S and V.

Objective 3 – Request for Resource 1 Functions F, N and T; Request for Resource 2 Functions A – E.

In addition Request for Resource 1 Functions G, H, O and U are activities which support all three objectives

Notes to the Accounts—*continued*

10. Analysis of Capital Expenditure, Financial Investment and Associated in A-in-A

2001–02

| | Capital expenditure | Loans etc | A-in-A | Net Total |
|---|--------------------------------|------------------|------------------|------------------|
| | £000 | £000 | £000 | £000 |
| Request for Resources 1 | 30,891 | 2,117,714 | (218,002) | 1,930,603 |
| Request for Resources 3 | 1,018 | | | 1,018 |
| Request for Resources 4 | | | | — |
| Total | 31,909 | 2,117,714 | (218,002) | 1,931,621 |
| Non A-in-A income from disposal of fixed assets | | | | (3) |
| | | | | <u>1,931,618</u> |

2000–01

| | Capital expenditure | Loans etc | A-in-A | Net Total |
|---|--------------------------------|------------------|------------------|------------------|
| | £000 | £000 | £000 | £000 |
| Request for Resources 1 | 10,858 | 1,899,777 | (134,976) | 1,775,659 |
| Request for Resources 3 | 211 | | | 211 |
| Request for Resources 4 | | | | — |
| Total | 11,069 | 1,899,777 | (134,976) | 1,775,870 |
| Non A-in-A income from disposal of fixed assets | | | | — |
| | | | | <u>1,775,870</u> |

11. Tangible Fixed Assets

| | Property | Office Machinery | Computer Capital | Telecoms | Vehicles | Fixtures & Fittings | Total |
|--------------------------|-----------------|-----------------------------|-----------------------------|-----------------|-----------------|------------------------------------|---------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | | | |
| At 1 April 2001 | 35,990 | 438 | 24,328 | 1,956 | 784 | 8,828 | 72,324 |
| Additions | 20,600 | 30 | 8,275 | (18) | 132 | 2,450 | 31,469 |
| Disposals | (2,699) | (7) | (5,015) | — | (353) | — | (8,074) |
| Revaluations | 1,159 | 5 | (5,284) | 12 | 50 | 190 | (3,868) |
| At 31 March 2002 | 55,050 | 466 | 22,304 | 1,950 | 613 | 11,468 | 91,851 |
| Depreciation | | | | | | | |
| At 1 April 2001 | 880 | 354 | 12,085 | 1,422 | 428 | 3,211 | 18,380 |
| Provided in year | 813 | 34 | 5,997 | 89 | 73 | 1,063 | 8,069 |
| Disposals | — | (9) | (4,984) | — | (238) | — | (5,231) |
| Revaluations | 53 | 6 | (2,164) | 9 | 33 | 74 | (1,989) |
| At 31 March 2002 | 1,746 | 385 | 10,934 | 1,520 | 296 | 4,348 | 19,229 |
| Net Book Value | | | | | | | |
| At 1 April 2001 | 35,110 | 84 | 12,243 | 534 | 356 | 5,617 | 53,944 |
| At 31 March 2002 | 53,304 | 81 | 11,370 | 430 | 317 | 7,120 | 72,622 |

Included in the total additions for the year is £20,917,000 property additions relating to the building costs of the National College for School Leadership. The remaining £10,552,000 has been used to purchase assets for use within the department to deliver its objectives.

During the year no property was professionally revalued, and all other tangible assets were revalued on the basis of monthly indices, provided by the Office for National Statistics. The Department is not aware of any material change to the valuation of the property since the last professional valuation by Donaldsons, Chartered Surveyors in 2000.

Notes to the Accounts—continued

| | Property £000 | Office Machinery £000 | Computer Capital £000 | Telecoms £000 | Vehicles £000 | Fixtures & Fittings £000 | Total £000 |
|--|------------------|-----------------------------|-----------------------------|------------------|------------------|--------------------------------|---------------|
| Assets in current use: | | | | | | | |
| Owned | 32,387 | 81 | 10,141 | 430 | 317 | 7,120 | 50,476 |
| Assets not in current use: | | | | | | | |
| Assets in course of construction | 20,917 | | 1,229 | | | | 22,146 |
| Net Book value at 31 March 2002 | 53,304 | 81 | 11,370 | 430 | 317 | 7,120 | 72,622 |

12. Intangible fixed assets

The department's intangible fixed assets comprise purchased software licences.

| | Purchased Software licences £000 |
|--------------------------|---|
| Cost or Valuation | |
| At 1 April 2001 | 317 |
| Additions | 440 |
| Disposals | — |
| Revaluations | (165) |
| At 31 March 2002 | 592 |
| Amortisation | |
| At 1 April 2001 | 317 |
| Provided in year | 52 |
| Disposals | — |
| Revaluations | (165) |
| At 31 March 2002 | 204 |
| Net Book Value | |
| At 1 April 2001 | — |
| At 31 March 2002 | 388 |

13. Loans

| | Students £000 | Section 255 £000 | Schedule 3 £000 | Total £000 |
|---|------------------|------------------------|--------------------|------------------|
| Balance at 1 April 2001 | 5,034,006 | 1,503 | 1,785 | 5,037,294 |
| Amounts previously transferred to debtors 2000–01 | 269,048 | 829 | 75 | 269,952 |
| Total loans outstanding at 1 April 2001 | 5,303,054 | 2,332 | 1,860 | 5,307,246 |
| Opening balance adjustment | (114,125) | | | (114,125) |
| New loans | 2,117,714 | | | 2,117,714 |
| Interest added | 145,627 | | | 145,627 |
| Admin charge applied | 2,312 | | | 2,312 |
| Repayments | (239,078) | (1,048) | (223) | (240,349) |
| Unallocated Repayments | (11,115) | | | (11,115) |
| Write offs | (1,190) | | | (1,190) |
| Balance at 31 March 2002 | 7,203,199 | 1,284 | 1,637 | 7,206,120 |
| Amounts repayable in 1 year transferred to debtors | 341,047 | 634 | 79 | 341,760 |
| Balance repayable at 31 March 2002 after one year | 6,862,152 | 650 | 1,558 | 6,864,360 |

Student loans are part of the government's package of financial support to students embarking on a course of higher education to help student meet the cost of living. The Student Loan Company issues and administers the loans on behalf of DfES, the Student Awards Agency for Scotland and the Department for Employment and

Notes to the Accounts—continued

Learning Northern Ireland. The DfES accounts only include the balance of loans students domiciled in England and Wales.

The Section 255 loans were issued by the Funding Agency for Schools (FAS) from money provided by the Department to help grant maintained schools fund capital projects. Responsibility for administering the loans transferred to the Department on 31 March 2000. At 31 March 2002 there were 23 outstanding loans (31 in 2000–01).

The Schedule 3 loans (formally known as 105 loans) are loans issued to voluntary schools for capital projects under Schedule 3 of the Schools Standards & Framework Act 1998. At 31 March 2002 there were 13 outstanding loans (16 in 2000–01).

14. Movements in Working Capital other than Cash

| | <u>2001–02</u> | <u>2000–01</u> |
|--|------------------|------------------|
| | <u>£000</u> | <u>£000</u> |
| Increase/(decrease) in stocks/work in progress | 315 | 47 |
| Increase/(decrease) in debtors (exc debtors loans repayable within 1 year) | (6,764) | (59,562) |
| (Increase)/decrease in creditors (exc cash payable to the Consolidated Fund) | <u>(112,293)</u> | <u>(140,889)</u> |
| Movement in working capital other than cash (Schedule 4) | <u>(118,742)</u> | <u>(200,404)</u> |
| Adjustment for debtor for CfER not included in resource based supply | <u>(2,224)</u> | |
| Movement in working capital other than cash (schedule 1) | <u>(120,966)</u> | |

15. Stocks and Works-in-Progress

| | <u>2001–02</u> | <u>2000–01</u> |
|--------|----------------|----------------|
| | <u>£000</u> | <u>£000</u> |
| Stocks | 799 | 484 |
| | <u>799</u> | <u>484</u> |

The Careers and Occupational Information Centre (COIC) publish a catalogue of free and priced publications for use by careers' services, schools and colleges. The closing stock balance is the value of priced publications held in store and work in progress.

16. Debtors

| | <u>2001–02</u> | <u>2000–01</u> |
|--|----------------|----------------|
| | <u>£000</u> | <u>£000</u> |
| Amounts falling due within one year: | | |
| VAT | 16,812 | 21,677 |
| Trade debtors | 6,280 | 2,882 |
| Deposits and advances | 26,158 | 5,676 |
| Other debtors | 399 | 3,172 |
| Amounts due from the Consolidated Fund in respect of supply | | 15,314 |
| Consolidated Fund extra receipts due for amounts to be surrendered | 2,224 | |
| Prepayments and accrued income | 149,180 | 168,988 |
| Amounts falling due after more than 1 year: | | |
| Prepayment of early departure pre-funding | <u>15,533</u> | <u>23,180</u> |
| | <u>216,586</u> | <u>240,889</u> |
| Transfer of loans payable within one year (see note 13) | 341,760 | 269,952 |

Notes to the Accounts—continued

17. Cash at Bank and In Hand

| | 2001–02 | 2000–01 |
|---|----------------|--------------|
| | £000 | £000 |
| Balance at 1 April | 8,889 | (98,574) |
| Net cash flow | 184,586 | 107,463 |
| Balance at 31 March | 193,475 | 8,889 |
| The following balances at 31 March are held at: | | |
| Office of HM Paymaster General | 193,435 | 8,793 |
| Commercial banks and cash in hand | 40 | 96 |
| | 193,475 | 8,889 |

The balance at 31 March comprises:

| | | |
|---|----------------|--------------|
| Cash due to be paid to the Consolidated Fund: | | |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 171,961 | (15,696) |
| Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund | 20,933 | 24,585 |
| Cash due to be paid to the Contingencies fund | 581 | |
| | 193,475 | 8,889 |

18. Creditors

| | 2001–02 | 2000–01 |
|--|----------------|----------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Other taxation and social security | 57 | — |
| Other creditors | 410,610 | 239,483 |
| Trade creditors | | |
| MOGC creditors | 9,212 | — |
| Consolidated Fund Receipts not yet paid over | 20,933 | 24,585 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 171,961 | — |
| Amounts issued from the Contingencies Fund due for repayment | 581 | |
| Consolidated Fund income not yet received | 2,224 | |
| Accruals and deferred income | 42,989 | 110,512 |
| | 658,567 | 374,580 |

19. Provisions for Liabilities and Charges

| | Early Departure cost | Student loans write off | Student loans interest subsidy | Student loans debt sale subsidy | Residual TEC property provision | Total |
|-------------------------------------|----------------------------|-------------------------------|---|---------------------------------------|--|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2001 | 49,480 | 681,448 | 1,100,778 | 715,330 | 573 | 2,547,609 |
| Provided in year | 5,799 | 83,320 | 772,555 | | 557 | 862,231 |
| Provision not required written back | (417) | | | (13,192) | | (13,609) |
| Provision utilised in the year | (13,026) | (1,190) | (376,047) | (88,986) | | (479,249) |
| Unwinding of discount | 2,085 | 59,668 | 96,384 | 42,867 | 34 | 201,038 |
| Balance at 31 March 2002 | 43,921 | 823,246 | 1,593,670 | 656,019 | 1,164 | 3,118,020 |

Early Departure Costs

The department meets the additional costs of benefits beyond normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departures and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6% in real terms. In the past years the department paid in advance some of its liability for early retirement by making a payment to the Paymaster's General's Account at the Bank

Notes to the Accounts—continued

of England for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment.

There are additional discounted early departure costs of £15.9 m which are funded under the 80/20 scheme approved by the Treasury.

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 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.

TEC Properties

With the closure of the TECs certain properties were re-assigned to the Secretary of State. The department created a provision to meet the future costs of properties until the anticipated disposal.

20. Reconciliation of Net Operating Cost to Changes in General Fund

| | 2001–02 | | 2000–01 | |
|--|--------------|------------------|--------------|------------------|
| | £000 | £000 | £000 | £000 |
| Net Operating cost for the year (Schedule 2) | (18,510,047) | | (15,902,437) | |
| Machinery of Government Changes | (2,428,318) | | | |
| Income not appropriated in aid paid to Consolidated Fund | (44,185) | | (125,869) | |
| | | (20,982,550) | | (16,028,306) |
| Net Parliamentary Funding | | 22,065,843 | | 17,278,751 |
| Non-cash charges: | | | | |
| Cost of capital | 214,818 | | 124,030 | |
| Auditors remuneration | 350 | | 429 | |
| Student Loans interest subsidy inflation adjustment | 115,815 | | 76,953 | |
| Services provided | | | 320 | |
| Services received | | | (5,296) | |
| | | 330,983 | | 196,436 |
| Other non-cash adjustments: | | | | |
| Machinery of Government Changes (net) | | (14,553) | | (211,484) |
| Transferred to general fund of realised element of revaluation reserve (see Note 21) | | | | (569) |
| Assets sold as CFER | | (3) | | |
| 2001–02 Prior year adjustment | | | | (354) |
| Amounts issued from the Contingencies Fund and not repaid | | (581) | | |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | | (171,961) | | |
| Consolidated Fund income not yet received | | (2,224) | | |
| Net increase in General Fund | | 1,224,954 | | 1,234,474 |
| General Fund at 1 April | | 2,689,610 | | 1,455,136 |
| General Fund at 31 March (Schedule 3) | | 3,914,564 | | 2,689,610 |

Notes to the Accounts—continued

The 'Other non cash adjustments' above include adjustments to eliminate 2000–01 fixed assets balances from the DfES balance sheet, via the General Fund. These adjustments are the result the transfer of fixed asset balances to the Department for Work and Pensions and the Home Office under the Machinery of Government changes. In addition to the Machinery of Government adjustments there are other non-cash adjustments for the Student Loan inflation, the amount of cash unspent at the end of the financial year, and the Prior Year claim on the reserve in respect of the European Social Fund.

21. Reserves

| | Revaluation Reserve |
|---|--------------------------------|
| | £000 |
| Balance at 1 April 2001 | (347) |
| Arising on revaluation during the year (net) | (814) |
| Transferred to the general fund in respect of realised element of revaluation reserve | |
| Balance at 31 March 2002 | (1,161) |

The Revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets). 2000–01 figures are unavailable for comparative purposes, due to Machinery of Government changes.

22. Notes to Schedule 5

Other than Student Loans outstanding which can be linked directly to Objective 2, the Department for Education and Skill's capital employed is used extensively for administrative purposes. Its distribution amongst objectives is therefore not markedly different from the proportion of the related gross administration cost.

Programme grants and other current expenditure have been allocated as follows:

| | 2001–02 | 2000–01 |
|--------------|-------------------|-------------------|
| | £000 | £000 |
| Objective 1 | 5,491,421 | 4,387,174 |
| Objective 2 | 12,785,416 | 10,964,748 |
| Objective 3 | — | 291,457 |
| Total | 18,276,837 | 15,643,379 |

23. Capital Commitments

| | 2001–02 | 2000–01 |
|---|----------------|----------------|
| | £000 | £000 |
| Contracted and approved commitments at 31 March 2002 for which no provision has been made | 1,591 | — |

24. Commitments Under Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

| | 2001–02 | | 2000–01 | |
|--|---------------------------------|--------------|---------------------------------|--------------|
| | Land & Buildings | Other | Land & Buildings | Other |
| | £000 | £000 | £000 | £000 |
| Obligations under operating leases comprise: | | | | |
| within one year | 46 | 12 | 244 | 5 |
| between two to five years | 1,486 | 453 | 324 | 1 |
| after 5 years | 22,261 | — | 20,920 | — |
| | 23,793 | 465 | 21,488 | 6 |

Notes to the Accounts—*continued*

25. Contingent Liabilities

| | <u>2001–02</u> | <u>2000–01</u> |
|--|----------------|----------------|
| | <u>£000</u> | <u>£000</u> |
| Non-Statutory Liabilities Charged to Votes | | |
| The Department will meet the accrued Civil Service redundancy entitlement to date of resignation of secondees who resigned from the Department to take up Training and Enterprise (TEC) employment on or after 1 January 1993 in TECs in England and Wales if: | | |
| a. their TEC makes them redundant due to direct government action during their first five years of employment | | |
| b. a court or tribunal ever ruled that TEC and civil service employment were continuous for redundancy calculation purposes. | 6,000 | 6,000 |
| The Department will meet the redundancy and other staff related costs of any staff who transferred, with rights under the Transfer of Undertakings (Protection of Employment) regulations (TUPE), from TECs to the contractor responsible for delivery of the Individual Learning Accounts Framework. | — | 1,000 |
| The Department has and will continue to give indemnities to Training and Enterprises Councils (TECs), Chamber of Commerce Training and Enterprise Councils (CCTEs), their representative TEC bodies and those concerned with the wind up, transfer or continuation of TEC delivered activity, where this will facilitate the conclusion of the working and contractual relationship between TECs, CCTEs and Government, thereby ensuring the continuation of essential discretionary activity and the return of residual reserves owing to the Secretary of State at the earliest opportunity. | | |
| The indemnities will include: | | |
| – Liabilities that arise from audit work carried in respect of the delivery of activities funded through European Union initiatives or through Single Regeneration Budget and other schemes sponsored by Government Departments other than DfES and DTI; | 136,600 | 3,500 |
| – Liabilities that arise from the transfer of TEC/CCTE functions to successors, including from staff who have transferred or been made redundant, and who as a result of the transfer seek redress through the Employment Tribunal. | 6,900 | 2,000 |
| – Liabilities arising from properties leased by TECs/CCTEs that they have been unable to dispose of by the time they wind up. The Department may take over these leases and dispose of them on behalf of the TECs/CCTEs | 1,800 | 24,000 |
| In order to ensure the Croydon Local Learning and Skills Council (LLSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CCTE) property exists in the Croydon LLSC area an indemnity to give a landlord a guarantee that, in the event of the Learning and Skills Council (LSC) ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history. | 6,880 | 6,880 |
| In order to ensure the Learning and Skills Council (LSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training Enterprise (CCTE) property exists in Brighton, Manchester or Coventry area an indemnity to give landlords a guarantee that, in the event of the LSC ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history. | 76,000 | 76,000 |
| In order to ensure that Adult Learning Inspectorate (ALI) commenced operations in April 2001 and because no suitable Departmental property exists in the Coventry area and indemnity to give landlords a guarantee that, in the event of ALI ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the ALI is and unknown body with no financial history. | 5,600 | 8,700 |
| An indemnity to cover the cost of re-assessing trainees who are disadvantaged by flaws in the awarding of National Vocational Qualifications by the Road Transport Industry Training Board | 390 | 390 |
| Arrangements to allow the appointment of a receiver to manage the affairs of Nottingham Enterprise Ltd (formerly North Nottingham TEC) | 2,000 | — |

Notes to the Accounts—continued**26. Related Party Transactions**

The DfES pays grants to the following executive Non-Departmental Public Bodies:

Adult Learning Inspectorate (ALI)
 British Educational Communications and Technology Agency (BECTA)
 Construction Industry Training Board (CITB)
 Education Transfer Council (ETC)
 Engineering Construction Industry Training Board (ECITB)
 Higher Education Funding Council for England (HEFCE)
 Investors in People UK Ltd (IiP)
 Learning and Skills Council (LSC)
 National College for School Leadership (NCSL)
 Qualifications and Curriculum Authority (QCA)
 Student Loans Company Ltd (SLC)
 Teacher Training Agency (TTA)

In addition, the DfES has had various material transactions with Other Government Departments. Most of these transactions are with the Department for Work and Pensions, Department for Trade and Industry and Department for Environment, Food and Rural Affairs.

None of the DfES Board members, members of key managerial staff or other related parties has undertaken any material transactions with the DfES during the year.

27. Accountability Notes**a. Losses Statement**

The total of all losses that have been brought to account in this year are as follows:

| | No. of cases | £000 |
|------------------------|-------------------------|--------------|
| Request for Resource 1 | 257 | 2,491 |
| Request for Resource 3 | — | — |
| Request for Resource 4 | — | — |
| | <u>257</u> | <u>2,491</u> |

Included in the above is a loss of £131k in respect of WBLA irregularities at Solotec, following the Government Office London's comprehensive evaluation of 1998-99 claims. £2m relating to School Achievement Awards which were incorrectly calculated by DfES between 1997 and 2000. £136k in respect of capital gains given between 1959 and 1965 to the National Deaf Blind and Rubella Association (SENSE), under The Special Schools and Establishment (Grant) Regulations 1959.

The losses do not include any amounts for the Individual Learning Accounts irregular payments. See note 29 for further information.

b. Special Payments

The total of all special payments that have been brought to account in this year are as follows:

| | No. of cases | £000 |
|------------------------|-------------------------|-------------|
| Request for Resource 1 | 55 | 173 |
| Request for Resource 3 | — | — |
| Request for Resource 4 | — | — |
| | <u>55</u> | <u>173</u> |

Notes to the Accounts—continued**c. Loans Remitted (written off) in Year**

Loans totalling £1,437,000 issued by the Student Loans Company were remitted during the year mainly due to 362 deaths (£1,110,000) and 78 disabled borrowers (£262,000). Of this total £1,190,000 is attributable to funds provided from Function R. The remainder is attributed to the separate Votes for the Student Awards Agency for Scotland (£197,000) and the Department for Employment and Learning Northern Ireland (£50,000).

d. Acquisition of Shares

| | |
|---|----------|
| Shares held at 1 April 2001 | £ |
| In Year Acquisitions | 5 |
| Total shares held at 31 March 2002 | 5 |

The above shares include the following:

5 ordinary shares of £1 in the Student Loan Company Limited.

e. Related Accounts

The accounts of the following agencies and NDPBs whose funding is reported in the DfES accounts are published separately as a White Paper Account and have not been consolidated in these accounts:

Learning and Skills Council
Higher Education Funding Council for England
Qualifications and Curriculum Authority
Teacher Training Agency

28. Distribution of TEC Reserves

The cessation of the Training and Enterprise Councils (TECs) Licence and the establishment of the Learning and Skills Council (LSC) meant that a policy had to be agreed with Ministers and HM Treasury which enabled TEC assets to be put back to use by the successor bodies, such as the LSC, for the benefit of the local communities. The Department worked with the TEC Boards on transfer of business from TECs to the successor organisations and the disposition of the assets.

The assets fall into the following categories:

1. Liquid reserves attributable to the Secretary of State which are cash reserves generated from government funding
2. Non-attributable liquid reserves which are cash reserves generated by the TECs from other sources
3. Attributable fixed assets are the physical assets funded by the Secretary of State which have been transferred to the LSC or successor bodies
4. Non-attributable fixed assets are physically funded from the TEC generated income which have been transferred to the LSC or successor bodies

Total TEC Reserves at date of closure

| | |
|--|----------------|
| | £000 |
| Liquid reserves attributable to the Secretary of State | 263,367 |
| Fixed assets attributable to the Secretary of State | 12,758 |
| Non-attributable reserves | 26,876 |
| Fixed assets | 5,411 |
| Total Reserves | 308,412 |

Notes to the Accounts—*continued*

The reserves have been distributed as follows:

| Note | Liquid | Attributable Fixed Assets | Non- | Non- | Total | |
|--|----------------|------------------------------|---------------|--------------|----------------|--------------|
| | Attributable | | Attributable | | | Attributable |
| | Reserves | | Reserves | | | Fixed Assets |
| | £000 | £000 | £000 | £000 | £000 | |
| ILA Commitments repaid to the department | 115,966 | | | | 115,966 | |
| Legacy payments to National and Local LSC offices | 46,867 | 5,409 | 1,502 | | 53,778 | |
| TEC contribution to National Transition Costs | 25,489 | | | | 25,489 | |
| Assets transferred to Continuing Entities | 1,185 | 5,324 | 8,831 | 692 | 16,032 | |
| Assets transferred to Business Links | 3,272 | 1,642 | 7,783 | 754 | 13,451 | |
| Assets transferred to Chamber of Commerce | 758 | 383 | 6,749 | 3,965 | 11,855 | |
| Other | 12,471 | | 2,011 | | 14,482 | |
| Reserves distributed | 206,008 | 12,758 | 26,876 | 5,411 | 251,053 | |
| Outstanding reserves | | | | | | |
| Attributable Funds held by liquidators | 25,855 | | | | 25,855 | |
| Attributable Funds in TECs yet to appoint liquidators | 7,111 | | | | 7,111 | |
| Attributable Funds held by Continuing TECs | 24,393 | | | | 24,393 | |
| Outstanding reserves to be repaid to the department | 57,359 | | | | 57,359 | |
| Total TEC reserves | 263,367 | 12,758 | 26,876 | 5,411 | 308,412 | |

Note 1 Other includes payments made by TECs to DfES in return for the assignment of their leases to DfES and donations to other successor bodies such as Charitable organisations and development agencies

Note 2 Funds remaining with continuing entities refers to the attributable reserves still held by former TECs but which are due to be returned to the DfES

Under the Legacy Fund, TEC reserves and physical assets were transferred to local communities. Examples of how TEC assets have been used to benefit local communities are:

Focus (Central London TEC) donated £2.4m to the Peabody Trust to further development of learning and skills in the deprived inner London communities.

London East TEC donated £3.8m to the Ethnic Minorities Foundation to support East London Centre which provides IT training and business start up facilities for the benefit of a largely ethnic minority population.

Manchester Enterprises plc (the former Manchester TEC) is continuing to trade and has put over half a million pounds of Secretary of State's reserves into Skill City, the Skills Olympics for 2002 which is being held in Manchester in November 2002. The former TEC has also used its non-attributable reserves to lever its European funds to help fund the regeneration of Manchester pre and post the Commonwealth Games.

Tees Valley TEC donated a working farm valued at £350,000 to a local charity to continue the provision of outward bound training for children from under privileged backgrounds in the North East.

On the Wirral, the former CEWTEC premises are now being run by a local consortium headed by the local authority and the Learning and Skills Council to provide the business community with facilities and 'managed workspace' for embryonic businesses.

Bradford TEC has donated £750,000 to develop European Computer Driving Licence training in the city.

In addition TEC reserves have been used directly to inject substantial amounts of capital into Business Links, Chambers of Commerce and other local development agencies. Surplus assets such as IT equipment and mini buses have been passed on to be used by schools, colleges and other community bodies.

Notes to the Accounts—*continued*

TECs across the country have ensured that significant European projects were either properly managed out or passed onto successor bodies and, for example in the West Midlands in particular, reserves have been used in supporting inward investment in the automotive sector.

29. Individual Learning Accounts

The Individual Learning Account (ILA) programme was an innovative scheme designed to widen participation in learning and to help overcome financial barriers to learning faced by individuals. The ILA programme was universal and open to everyone aged 19 or over (subject to some nationality and residency conditions). The programme was central to the Government's commitment to developing lifelong learning. From the summer of 2001 the DfES started to receive increasing numbers of complaints about mis-selling and abuse with regard to the programme and on 24 October 2001 it was decided to withdraw ILAs from 7 December 2001. However, after receiving new information about serious potential fraud and theft, the programme was closed immediately on 23 November 2001.

Programme expenditure (Estimate Line B Post 16 expenditure) includes £204.7m spent on ILAs during 2001–02. Total expenditure from the start of the programme to 31 March 2002 on ILAs is £274.7m. Follow-up investigations into the complaints are still continuing by the Department, but on the basis of the work carried out to date it is estimated that the £274.7m total expenditure contains irregular payments of around £97m which have occurred since the start of the scheme in 2000–01. This includes some £30 million relating to cases where good quality learning was delivered, but where the provider did not seek the full personal contribution from the learner. The Department is unable, at this stage, to estimate how much of this sum it will be able to recover. As soon as the police and departmental investigations are completed, the losses will be reported in the Accounts as per the rules in *Government Accounting*.

30. Financial Instruments

FRS 13, Derivatives and Other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks of an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Department for Education and Skills is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the limited companies to which FRS 13 applies. The Department has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the department in undertaking its activities.

Liquidity risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure is. DfES is therefore not exposed to significant liquidity risks.

Interest-rate risk

The Department's assets and liabilities carry either nil or fixed rates of interest and is not therefore exposed to significant interest-rate risk.

Foreign currency risk

The Department's exposure to foreign currency risk is negligible. The foreign currency income received by the Department is negligible and foreign currency expenditure is less than 0.06 per cent of total expenditure and therefore is not significant.

Notes to the Accounts—continued*Fair Values*

Set out below is a comparison of book values and fair values of the department's financial assets and liabilities as at 31 March 2002.

| | <u>Book Value</u> | <u>Fair Value</u> | <u>Basis of fair valuation</u> |
|--|-------------------|-------------------|--------------------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Primary financial instruments: | | | |
| <i>Financial assets</i> | | | |
| Cash at Bank | 193,475 | 193,475 | |
| Student Loans | 7,203,199 | 7,203,199 | note a |
| Loans to former grant maintained schools | 1,284 | 1,284 | note b |
| Loans to voluntary aided schools | 1,637 | 1,637 | note b |
| <i>Financial liabilities</i> | | | |
| Provisions | (3,118,020) | (3,118,020) | note c |

Notes:

- a The student loans interest rate is revised annually, so the fair value is not significantly different from the book value.
- b Schools are charged fixed rate interest based on the government lending rate on the day the loan was issued. There is no significant difference between the interest rate charged to the schools and the current rate of interest, so the fair value is not significantly different to the book value.
- c The fair value of the provisions is not significantly different from the book value since, in the calculation of the book value, the expected cash flows have been discounted by the Treasury discount rate of 6 per cent in real terms.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Introduction

1. During the 2001–02 financial year, the Department for Education and Skills (DfES) was responsible for management, closure and winding down of the Individual Learning Accounts scheme. Expenditure on this programme was accounted for within the DfES Resource Account. The Government introduced Individual Learning Accounts in England in September 2000, to widen participation in learning and to help overcome financial barriers to learning faced by individuals. Although anyone could open an account, the scheme was targeted at bringing back into learning those people who had not done any for some time and those who lacked skills and qualifications. In October 2001 the Secretary of State for Education and Skills announced withdrawal of the scheme from 7 December 2001 because:
 - demand for accounts was much higher than expected;
 - there were concerns about how the scheme was being promoted and sold;
 - some learning providers were abusing the system, offering low value, and poor quality learning; and
 - there were increasing numbers of complaints from learners.
2. The scheme was far more popular than expected. The Government's commitment to a million account holders was achieved in May 2001, almost a year early. By September 2001, take-up had increased by 50 per cent. Total expenditure on the scheme from its inception to 31 March 2002 amounted to £274.7 million compared to a budget of £199 million.
3. In line with Police advice, the Secretary of State closed the scheme with immediate effect on 23 November 2001, following allegations that a large number of account numbers had been extracted from the system underpinning the scheme and offered for sale. At the time the Department for Education and Skills estimated that if the scheme was not closed immediately, the value of fraudulent claims could run into tens of millions of pounds.

Allegations of fraud, irregular payments and abuse

4. Subsequent to the closure of the scheme, investigations by the Department have found evidence that the system was abused by learning providers and irregular payments were made. These investigations and compliance visits to learning providers have found that some providers registered a very large number of learners over a very short period of time and found evidence that a significant number of accounts were opened and incentives claimed without the knowledge or consent of the account holder.
5. In a number of cases, although learning was delivered, claims were not made in accordance with the scheme rules, for example the full contribution was not sought from the account holder, or there was insufficient documentary evidence supporting the claim. In some cases cash or other incentives were offered to individuals to enrol on courses. Analysis of the Department's records indicates that some learning episodes funded were ineligible under the scheme. Additionally, account holder details held on the ILA database were offered for sale to other learning providers or used to book learning and claim funds. Research commissioned by the Department indicated that a number of learners registered as having started their training had not done so. Fictitious account holders were also created to claim funds. To date 60 arrests have been made; one provider has been successfully prosecuted for making fraudulent claims, ten individuals have accepted cautions and 13 have been charged (2 charges have since been dropped by the Crown Prosecution Services).
6. The precise extent of fraudulent activity will not be known until the Department's investigations are complete. However, the estimated net irregular payments are some £97 million of which, based on estimates and extrapolations, fraud and serious irregularities may be up to some £67 million. Also included is some £30 million where good quality learning was delivered but where the claims did not fully meet the scheme rules; for example, where the provider did not seek the full personal contribution from the learner. The Department cannot be more precise as more information is continually being received, processed and investigated. I am satisfied that the methodology adopted by the Department in estimating the levels of irregular payments is robust, and that £97 million represents the likely level of irregular payments made

under the ILA scheme. The Department is unable, at this stage, to estimate how much of this amount it will be able to recover.

Qualification of Audit Opinion

7. In forming my audit opinion on the Department for Education and Skills Resource Account 2001–02 I am required to confirm whether, in all material respects, the expenditure and income of the Department have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In respect of the £97 million of irregular payments made by the Department under the Individual Learning Accounts programme, this expenditure is not in accordance with Parliamentary intention, and my audit opinion has been qualified in this respect.

Further Information

8. I have recently completed a detailed report on Individual Learning Accounts (HC 1235 session 2001–02) which was published on 25 October 2002 and contained my conclusions on the overall management of the risks involved in designing and implementing the programme. This report was the subject of a Committee of Public Accounts hearing on 4 November 2002. Copies of my report are available from the Stationery Office or can be downloaded from the National Audit Office web site at www.nao.gov.uk.

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