

Department for Education and Skills

Resource Accounts 2004-05

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(For the year ended 31 March 2005)

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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 resources 1), the Sure Start Unit (Request for resources 2) and the Children's and Young People's Unit who manage the Children's Fund (Request for resources 3).

2. Bodies outside the Departmental Accounting Boundary

2.1 During 2004-05 the Department had lead responsibility for the public sector bodies listed below, including 15 executive non-departmental public bodies (NDPBs). The NDPBs have their own Accounting Officers who are responsible to Parliament for the funds received and publish their own accounts separately. Most of the NDPBs are financed through Grant-in-Aid, with two (CITB and ECITB) partly funded by levies which they raise. One NDPB (OFFA) was set up during 2004-05 and the set up costs are part of Departmental operating costs. All other bodies listed below are outside the Departmental boundary for the Resource Accounts.

Executive Non-Departmental Public Bodies (NDPBs)

Adult Learning Inspectorate (ALI)
British Educational Communications Technology Agency (BECTA)
Children and Family Court Advisory and Support Service (CAFCASS)
Higher Education Funding Council for England (HEFCE)
Investors in People UK Ltd (IiP)
Learning and Skills Council (LSC)
National College of School Leadership (NCSL)
Office for Fair Access (OFFA) – operational from 1 April 2004
Partnerships for Schools (PfS) – operational from 1 June 2004
Qualifications and Curriculum Authority (QCA)
Sector Skills Development Agency (SSDA)
Student Loans Company Ltd (SLC)
Teacher Training Agency (TTA)

Public Corporations

General Teaching Council (GTC)
Learning and Skills Development Agency (LSDA)

Executive NDPBs funded by levy

Construction Industry Training Board (CITB)
Engineering Construction Industry Training Board (ECITB)

Tribunal NDPBs

Registered Inspectors of Schools Appeal Tribunal
Special Educational Needs and Disability Tribunal

Advisory NDPB

School Teachers' Review Body

Near to Government Bodies

Basic Skills Agency
British Academy
Centre for Information on Language Teaching and Research (CILT)
Specialist Schools Trust (formerly Technology Colleges Trust)
University for Industry
League for the Exchange of Commonwealth Teachers

2.2 In addition to the NDPBs and other bodies listed above, the Department also had lead responsibility for Local Education Authorities (LEAs).

3. Departmental Reporting Cycle

3.1 Each year the Department publishes the Departmental Report, a comprehensive review of the Department for Education and Skills (DfES) and the Office for Standards in Education (OFSTED). The latest Report published in June 2005 gives detailed information on the Department's achievements in the 2004-05 financial year, progress against our Public Service Agreement (PSA) targets and our expenditure plans based on the resources allocated in the Spending Review 2004 settlement. Further information on the Departmental performance in achieving its aims and objectives is available in the *Autumn Performance Report*.

4. Operating and Financial Review

4.1 The following paragraphs are a summary of the operating and financial performance during the financial year and the investment strategy for the future. Further information is available in the *Departmental Report 2005* (Command paper no 6522 issued 20th June 2005), *Education and Skills: Delivering Results; a strategy to 2006* (revised December 2002), the *Autumn Performance Report* (Command Paper No 6399 issued December 2004), the *Five Year Strategy for Children and Learners and the Departmental Investment Strategy 2005-08*. All of these documents are available on the DfES website (www.dfes.gov.uk).

5. Aims and Objectives of the Department

5.1 The Department is responsible for education and lifelong learning in England. It also has wider responsibilities for a range of policies, some of which it shares with other government departments, such as the Sure Start programme (shared with the Department for Work and Pensions), to ensure children and young people are safe, well and ready to learn.

5.2 Our strategic aim is to help build a competitive economy and inclusive society by:

- creating opportunities for everyone to develop their learning;
- releasing potential in people to make the most of themselves; and
- achieving excellence in standards of education and levels of skills.

5.3 The 2004-05 objectives were to:

- Objective 1 – give children an excellent start in education so that they have a better foundation for future learning.
- Objective 2 – enable all young people to develop and to equip themselves with the skills, knowledge and personal qualities needed for life and work.
- Objective 3 – encourage and enable adults to learn, improve their skills and enrich their lives.

Our overall strategic aim remains the same, but the above objectives have been superseded by the following new objectives:

- Objective 1 – Safeguard children and young people, improve their life outcomes and general well-being, and break cycles of deprivation.
- Objective 2 – Raise standards and tackle the attainment gap in schools.
- Objective 3 – All young people to reach 19 ready for skilled employment or higher education.
- Objective 4 – Tackle the adult skills gap.
- Objective 5 – Raise and widen participation in higher education.

5.4 Further information on gross and net outturn by objective for both the current and prior financial year is available on Schedule 5 (page 29). These Accounts report financial performance against the three 2004-05 objectives, the new objectives will be reported upon in the 2005-06 Accounts.

6. Principal Activities

6.1 As a result of the hard work and dedication of front line professionals and all those who support them, this has been another year of significant achievement and progress. We have continued to make major progress across a range of areas:

- Free, part time early education for all three and four year olds has been introduced for those parents who want it.
- 1,279 Neighbourhood Nurseries have now opened in the most disadvantaged areas.
- Over 250 children's centres have been established.
- Following a period in which primary school results plateaued, the 2004 results show how the first increase at Level 4 or above in both English and mathematics for four years.
- Further improvements in the basics of mathematics were secured at Key Stage 3 with pupils achieving the best results we have seen.
- The 2004 results represent the seventh year of sustained year on year improvement in those achieving five GCSEs at grade A* – C.
- Behaviour and attendance has improved and the number of permanent exclusions is 25 per cent lower than in 1997 and attendance is at record levels and we will continue to build on these achievements.
- The interim target of 750,000 learners with Skills for Life qualifications by 2004 has been met.

6.2 We will continue to work towards improving standards and ensuring opportunities are created for everyone through the implementation of our strategies. The following paragraphs list some of the key activities during 2004-05 in each of the key programme areas.

Children, Young People and Families

- Publication of the five year strategy *Every Child Matters: Change for Children* in December 2004.
- Children's Commissioner was appointed on March 2005.
- Creation of a new integrated inspection framework.
- Development of Local Area Agreements with the Office of the Deputy Prime Minister, the voluntary three year agreements between Central Government, Local Authorities and their partners to ensure delivery of national outcomes is done in a way that reflects local priorities.
- Development of new inspection arrangements for children and young people's services through an overall inspection framework. Joint area reviews will be introduced in September 2005 and will assess what it is like to be a child in a local authority and the way local services work together to contribute to their well-being.

Early Years and Childcare

- Publication of a ten year strategy for childcare, *Choice for Parents, the best start for children*, in December 2004. Its key themes are choice and flexibility, availability, quality and affordability.
- Launching the childcare approval scheme in December 2004.
- The network of Sure Start children's centres is building on existing local initiatives like Sure Start Local Programmes, Neighbourhood Nurseries and Early Excellence Centres.

Primary Schools

- In 2004 an OFSTED report on standards of teaching reported that the quality of teaching is highest in mathematics and English, and there was most scope for improvement in the teaching of geography and religious education. As a result the Department created the Geography Development Fund and issued a non-statutory national framework for teaching religious education.
- In March 2005 the Department announced a financial boost for modern foreign languages in all schools, with £60 million allocated to primary education.
- Supporting all Local Authorities to implement the Wider Opportunities pilots to provide opportunities for every child who wants to learn to play a musical instrument.
- The Department has set out a core set of extended services which it would like to see available in or through all primary schools.

Independent Specialist Schools

- Nearly 70 per cent of all maintained secondary schools are now specialist; 509 became operational by September 2004 and a further 221 will become operational in September 2005.
- Continuing to work with partners on the Building Schools for the Future programme. The first of the new and refurbished schools will be open at the end of 2006.
- Continuing the Academies programme to provide new independently managed schools in areas of low educational standards and disadvantage where there are insufficient good school places. By the end of 2004-05 there are 17 Academies open with 11 more due to open in September 2005 and 33 more in development.
- The Department has been trialling New Relationships with Schools (NRwS), which aims to reduce bureaucracy, sharpen challenge and improve support to schools.

Personalisation and Choice in the Secondary Years

- The extension of the Key Stage 3 National Strategy into the Secondary National Strategy for School Improvement began in 2005. The Secondary Strategy offers support for schools and local authorities to implement one coherent programme for raising standards through the whole 11-16 phase.
- Implementing a national programme to improve standards of behaviour and attendance.
- Developing a core set of extended services which we would like to see available in or through schools similar to that being developed in primary schools, that will provide before and after school activities that will engage young people.

14 – 19 Education and Skills

- In February 2005, we published *14–19 Education and Skills* which sets out our proposals to strengthen the place of essential skills for life, learning and employment within 14 – 19 education and training by placing the emphasis on getting the basics right, especially numeracy and literacy, and tackling the quality and relevance of vocational learning, and supporting those at risk of disengagement back into learning.
- The Connexions Service achieved its target to reduce the proportion of 16–18 year olds not in education, employment or training by 10 per cent between November 2002 and 2004. Reducing the numbers even further will remain a key priority.
- 113,000 young people took part in the Positive Activities for Young People programme which provides diversionary activities for young people across the country aged 8–19.
- In 2004, the Department reviewed the delivery of careers education and guidance by schools, colleges, work-based training providers and the Connexions Service.

Adult Skills

- *Skills: Getting on in business, getting on at work*, published in March 2005, builds on the *Skills Strategy White Paper: 21st Century Skills – Releasing our Potential* published in July 2003. It develops our strategy for ensuring that employers have the right skills to support the success of their businesses and helps individuals gain the skills they need to be employable and personally fulfilled.
- In May 2004 we introduced a new Apprenticeships structure comprising Young Apprenticeships for 14- to 16-year olds, Pre-Apprenticeships based on the popular entry to employment programme (level 1), and Apprenticeship (level 2), Advanced Apprenticeships (level 3) and Apprenticeships for adult entry – lifting the age limit to 25.
- In September 2004 trials began in the North East and South East regions to provide free tuition to any adult who has not previously achieved a full qualification at level 2 and who now wants to do so.
- We have continued the development of the Sector Skills Councils (SSCs) network, and by the end of February 2005 there were 22 licensed SSCs.

Higher Education

- The Higher Education Act 2004 received Royal Assent on 1 July 2004, followed by the Student Fees (Approved Plans) (England) Regulations 2004 in September 2004, the enabling legislation that will give rise to variable fees.
- Established the Office for Fair Access which is responsible for approving higher education institutions' access agreements.
- Working with HEFCE on establishing Centres for Excellence in Teaching and Learning to reward good teaching at departmental level and to promote excellence across all subjects and aspects of teacher and learning in higher education.

7. Features of the Operating and Financial Performance for the Year

Internal and external influences on performance

7.1 International comparisons show that the gap in attainment between children from the highest and lowest socio-economic groups is wider in the UK than any almost other OECD country. The UK also has one of the lowest staying on rates in education after the age of 16 and has a particularly large number of adults with low or no skills. These weaknesses are a constraint on the UK productivity and carry a high social cost. The Department's policies and allocation of resources are driven by addressing the Government's wider social and economic goal to build a productive, competitive economy and an inclusive society in which everyone has the opportunity to develop their learning and realise their potential.

7.2 The Spending Review settlement outlined in the 2004 *Spending Review White Paper* is a key influence on the Department's ability to deliver on its objectives and to make a contribution to economic and social improvements in the country. The importance of education is recognised in financial terms by the increase in the spending in the education sector in the Spending Review 2004.

During the period covered by the Spending Review 2004:

- Total spending on education in England is expected to be £12 billion higher in 2007-08 than in 2004-05, and is forecast to rise annually in real terms by 6 per cent, 3.6 per cent and 3.7 per cent between 2004-05 to 2007-08 (an average increase of 4.4 per cent a year in real terms over this period).
- Education spending is expected to rise from 5.3 per cent of Gross Domestic Product (GDP) in 2003-04 to 5.6 per cent in 2007-08.

Capital investment in children, families, education and skills is rising from less than £1 billion a year in 1997-98, £5 billion in 2004-05 to an expected £7 billion a year in 2007-08, of which £1.3 billion is expected to be through the Private Finance Initiative (PFI).

7.3 The third major influence on Departmental performance is the *Five Year Strategy for Children and Learners* (published in July 2004) which outlined how the Department will concentrate resources on reformed services and so that the country is prepared to meet these challenges and secure world class standards for the majority of our citizens. The core role of the Department is to support ministers in providing strategic leadership to the system, setting the overall strategic direction and the outcomes that are being sought for children, young people and adults. This new role requires a smaller Department that is more professional and expert, has strong working relationships with its partners, making a difference for children and learners.

7.4 The Department has made good progress in reforming its organisation and staffing and is on target to reduce by 850 staff by March 2006 and a further reduction of 610 staff by March 2008 - a total of 1,460 staff lower than the October 2003 baseline. A smaller more strategic Department will also require a different mix of grades and skills. The Department is engaged in a major programme of upskilling of its existing staff through the Learning Academy and will continue to bring in people with practical experience.

7.5 In addition to reforming the internal structure, we are also changing how services are delivered to improve efficiency. As part of the efficiency plans we intend:

- Reducing the total number of civil servant posts by 1,960: 1,460 in the core department and a further 500 in OFSTED.
- Use workforce reform, investment in ICT and a reduction in administration to enable front line professionals to use their time more productively.
- Improve the procurement of goods, services and new school buildings using a new Centre for Procurement Performance.

- Streamline the delivery system of each sector through improvements in policy, funding and regulation.
- Free up resources through reductions in the cost of the Department, its NDPBs and OFSTED by reducing overlaps and simplifying systems and processes.
- Pursuing efficiency gains by other means, including improvements in school-level financial management through the increased use of benchmarking and dissemination of best practice.

Financial position

7.6 Schedule 1 provides information on how the Department has performed against the Parliamentary controls on resources and cash expended by the Department. This information is supplemented by Note 10, which reports outturn in the same format as the Supply Estimate. The net resource outturn is 4.5% lower than the resource limit in the Supply Estimate. The cash consumed is also within the Supply Estimate Net Cash Requirement limit. The full analysis of expenditure by Estimate Line is provided in Note 10 on page 48-49. The tables below contain information on the Estimate Lines where the variance is greater than 10% of the budget.

Request for resources 1 – Core Department

Estimate Line	Limit	Outturn	Variance (Over)/under	Explanation of variance
	£000	£000	£000	
B – Support for Schools, and Teachers not paid through LEAs	951,488	822,189	129,299	The variance reflects a classification change in respect of Standards Fund payments which were paid via LEAs (Estimate Line I) rather than being paid directly to Schools from the Estimate Line B Standards Fund budget.
D – Higher Education	65,258	127,638	(62,380)	DfES is keen to ensure that underspends are minimised as much as possible. Part of minimising underspends involves making sure that End Year Flexibility is not drawn down when there are underspends that could be utilised from existing budgets. Unfortunately when preparing the list of virements between Estimate Lines for the Spring Supplementary we incorrectly added a movement out of Aim Higher from Estimate Line D, resulting in the large overspend.
F – Further Education, Adult Learning and Skills for Lifelong Learning and International Programmes	468,260	392,321	75,939	The budget provision reflects early assumptions about how spending and activities on the Skills Strategy would take place. The underspend reflects the fact that more of the activity is now planned for later years.

Estimate Line	Limit	Outturn	Variance (Over)/under	Explanation of variance
	£000	£000	£000	
G – Support for students in Higher Education	1,561,281	1,109,394	451,887	The key elements of this variance is a release of provision for mortgage style loans amounting to £412 million, to compensate for previous overprovision. This is off-set by an increase in provision of £167 million for future write-offs above the normal annual increase. In addition a further £198 million of under spends have occurred in relation to: student loans; part-time student support; and higher education (HE) student support grants. The student loans variance is the result of an adjustment to the budget that incorrectly anticipated in-year interest charges. The part-time student support variance is mainly due to poor take-up of the policy in its first year of operation. The variance on HE student support grants was primarily due to poor expenditure monitoring systems, which were not rectified until the end of the financial year.
H – Compensation to former College of Education Staff	8,688	11,249	(2,561)	Late in the year it emerged that the payments would exceed the budget, however the additional resource was not drawn down from End Year Flexibility to avoid increasing the Departmental underspend.
K – Higher Education Fees and Awards through LEAs	10,000	11,057	(1,057)	The fees and awards are demand led budgets. The budget in the Supply Estimate was based on assumptions about the rate that this programme would wind down over the year. Unfortunately, the demand was higher than anticipated causing an overspend.
N – Education Maintenance Allowance's not through LEAs	214,000	188,657	25,343	The variance is the result of transferring provision to the Learning and Skills Council (LSC) to reimburse the costs of LSC-funded providers in delivering EMAs. The provision transferred to LSC has not been reflected in the Supply Estimate.
Q – Grant in Aid to NDPBs supporting Children and Families Schools	262,014	220,814	41,200	This Estimate Line is underspent because QCA did not require its full GIA. The budget limit was based on QCA's estimated cash requirement to meet its business plan. However, the business plan budget was subsequently reduced and a number of projects were delivered at the end of March, meaning the cash liability fell after the end of the financial year.

Request for resources 2 – Sure Start

Estimate Line	Limit	Outturn	Variance (Over)/under	Explanation of variance
	£000	£000	£000	
A – Sure Start Administration Costs and Current Grants	590,501	494,445	96,056	The variance reflects a classification change in respect of capital grant payments which were paid via LEAs (Estimate Line C) rather than being paid directly to non LEA partnerships.
B – LA Current grants	338,151	288,377	49,774	LA current grants are allocated for two years to LAs. The grants support a range of activities including Children's Centres, neighbourhood nurseries and childminder support. There has been slippage in these activities partly as a result of fewer Children's Centres being built than planned and partly because LAs have taken longer than planned to get the other activities covered by the grants running. It is expected that this shortfall in activity will be reversed in 2005-06 and money will be carried forward so that the two year programme can be delivered in full.

7.7 Schedule 2, the Operating Cost Statement, reports total administration costs and programme costs by request for resource. The Net Operating costs have risen by £2 billion from £24.6 billion to £26.6 billion as a result of a corresponding increase in Net Programme Costs.

7.8 The most significant item on Schedule 3, the Department's balance sheet is student loans. Student loans comprise 98% of the gross assets, which has a significant impact on the Department's balance sheet. The net assets on the balance sheet have increased by £1.8 billion largely as a result of the steady increase in outstanding loan balances. The provisions for student loans have been revalued this year based on updated assumptions on the repayment profiles of mortgage style loans. This has resulted in less money being set aside for estimated future interest subsidy costs, but an increase in the write off provision. The assets and liabilities not related to student loans have remained relatively stable.

7.9 Schedule 4, the cash flow statement, provides further information on how the Department's finances its activities. The main source of funding is the Consolidated Fund. The operating costs include non-cash costs totalling £963 million. This is only 3% of the total costs, with the cash outlay of £26 billion for the remaining 97% of costs.

7.10 Schedule 5 reports expenditure by Departmental objective. The statement has been prepared by directly allocating costs, where possible, and apportioning indirect costs where they support a number of objectives, for example, central support service such as personnel costs.

Analysis of Trends

7.11 The table below compares financial performance indicators for 2000-01 to 2004-05. It focuses on administrative costs and student loans, which have a significant impact on the Department's balance sheet.

Indicator	2000-01	2001-02	2002-03	2003-04	2004-05
(i) Gross admin costs as a % of total gross spend	1.7%	1.2%	1.1%	1.0%	1.0%
(ii) Staff costs as a % of gross admin costs	54%	56%	61%	62%	58%
(iii) Purchase of new assets used by the department in year	£10,858,000	£10,552,000	£13,129,000	£12,506,000	£9,673,000
(iv) Rate of replacement of departmental assets in use	8 years	7 years	6.6 years	6 years	6 years
(v) Student loans issued in year	£1,899,777,000	£2,117,714,000	£2,292,663,000	£2,402,309,000	£2,474,933,000
(vi) Repayment of Student loans as a % of opening balance of loans	5%	5%	4.6%	4.5%	4.9%

Explanation of trends

7.12 Since 2000-01 the total expenditure on Departmental administration costs has fallen each year, but this trend has reversed this year. The key component in the increase in costs is the £16 million increase in the provision for early departure costs. Despite the increase in actual costs, administration costs continues to fall as a percentage of the gross expenditure of the Department.

7.13 Staff costs charged to administration costs have fallen by £1.5 million, and £2.3 million in total. This is due to the reduction in staff numbers during the past year and is consistent with the 4% fall in the ratio of staff costs to gross administration costs of the Department.

7.14 The rate at which we are replacing assets continues to be in line with our asset management policy.

7.15 The value of student loans issued during the year continues to grow in line with the projected growth in student numbers.

7.16 The cash repayment of student loans continues to increase and the rate of repayment is keeping pace with the growth in the balance of loans.

8. Investment in the Future

8.1 The Five Year Strategy sets out clear links and interdependencies between ensuring success in children's services, education and lifelong learning and investing in the right built environment and ICT to enable that success. Capital programmes are also vital in supporting the objectives set in our PSA targets.

8.2 The Department continues to deliver almost all of its services through local authorities (LAs) and non-departmental public bodies (NDPBs), notably the Learning and Skills Council (LSC) and the Higher Education Funding Council for England (HEFCE). Local managers of schools, colleges and universities have considerable freedom to manage their own budgets, but we work with them to ensure they achieve good value for money.

8.3 The current Departmental Investment Strategy (DIS), covering the period 2005-06 to 2007-08, has a number of themes:

- Modernisation, to allow institutions to deliver learning in the 21st Century.
- Personalisation, to deliver choice and investment in learning environments that are tailored to the needs of individual pupils and learners.

- Multiple use, where buildings and their facilities will be designed to support different types of provision and services to local communities.

8.4 The Department's capital investment plan from 2005 to 2008 can be summarised as follows:

	2005-06 £m	2006-07 £m	2007-08 £m
Sure Start, Early Years and Childcare, and Children's Social Services	335	470	585
Schools, including ICT ¹	4,359	4,560	5,035
Post 16 Education and Skills ²	408	483	603
Higher Education Science Research Innovation Fund	208	237	267
Higher Education	442	468	472
Private Finance Initiative credits	1,220	1,270	1,320
TOTAL	6,972	7,488	8,282

¹Totals include £44m each year of Standards Fund capital grant and £26m in 2006-07 and 2007-08 as part of the e-strategy for learners to have online access at school and beyond the school day and £50m extra announced in Budget 2005 for ICT investment in schools.

²Consists mainly of capital grants administered by the LSC for FE, Adult and Community Learning, the Joint 16-19 capital fund with £70m and £100m contribution from schools capital, and information and learning technology. Also included is non-departmental public bodies' capital spending on their own estates.

Private Finance Initiatives

8.5 Private Finance Initiatives (PFI) have become well-established procurement methods for the construction and refurbishments of schools, colleges and universities. The DfES allocates PFI credits (a form of notional capital) to Local Authorities for particular projects; the credits relate to the cost of both the initial capital expenditure and the cost of the lifecycle maintenance of the buildings or other assets. The actual capital is invested by a private sector contractor which then recovers its investment through a regular monthly charge to the Local Authority over the period of a long term contract.

8.6 There are 81 signed schools PFI deals to date with a total value of £2.4 billion of private sector investment, covering over 670 schools. Services have started in over 41 projects with more than 100 new or substantially refurbished schools open. In addition, 28 school projects have been approved by the Treasury Project Review Group and are in procurement. The total capital value for the building projects is over £1.7 billion and they involve more than 200 schools.

8.7 The Building Schools for the Future (BSF) programme to rebuild or refurbish every secondary school in England launched in February 2004 will represent £2.2 billion of capital investment for 2005-06 (of which at least £1.2 billion is PFI credits). The first three waves of this programme have now been announced and include 39 authorities with an estimated 380 schools benefiting.

8.8 Over the Spending Review period we will be investing in the following areas:

Children, Young People and Families

- Information systems for children's social services.
- Increasing the quality of accommodation in the secured estate to enhance the quality of life for this group of vulnerable children.

Early Years and Childcare

- Increasing the stock of registered childcare places by 10% between 2004 and 2008.
- Pilot an extension of free, part time early education to 12,000 2 year olds in disadvantaged areas.
- Expand the delivery of Children's Centres delivering up to 2,500 by 2008.

Primary Schools

- Provide extended school services in 50% of primary schools.
- Supporting the needs of primary schools.
- Direct capital funding to schools to enable them to address their own priorities.

Independent Specialist Schools

- Expanding the number of Academies open or in the pipeline by 200 by 2010.

Personalisation and Choice in the Secondary Years

- A large scale programme to replace or modernise secondary schools.
- Ensuring by 2008 every secondary school which is up to standard will be a specialist school.
- Providing at least one full service extended school in each local authority area by 2006.
- Direct capital funding to schools to enable them to address their own priorities.

14 – 19 Education and Adult Skills

- Renovation and renewal of FE colleges.
- Open new school sixth form and FE provision for 16–18 year olds.

Higher Education

- Investment in the higher education estate.
- Investment in Universities' infrastructure to enhance science and innovation research.

Research and development

8.9 The DfES commissions research to help it achieve its strategic priorities. We understand that, unless we know who, in all their diversity, our customers are, how they react to our policies and what the many different problems facing them are, then we will not be able effectively to deliver on our agenda for change and improvement. Research helps us to understand what motivates people to participate and succeed in education and training, what works in improving these outcomes for different groups and what is the long term impact of different forms of education and training on individuals and the economy. We are also interested in the effect of education and learning on citizenship, health and crime. During 2004-05 the Department published 189 research reports covering a wide range of education and skills issues. In addition to assisting the Department to develop policy the results are also available to Government colleagues and the wider public via the DfES website.

8.10 The Operating Cost Statement includes £17.6 million expenditure on research projects during 2004-05 (£12.5 million 2003-04). It is the Department's policy not to capitalise the research costs, they are written off in the year the expenditure was incurred.

Human capital practices

8.11 The Department's human resource strategy, *Delivering Through People* was launched on 7 April 2003. The strategy sets out how the Department expects managers to manage and people to be developed to deliver our stretching delivery objectives. The aims of the Strategy are to create a department where:

- Managers inspire, develop and manage the performance of their people.
- All staff are expected to develop the skills needed to do their jobs and to live the standards of behaviour.
- Human resource systems are unbureaucratic and human resource support is focussed on the business.

- All staff have the opportunity for broad fulfilling careers.
- 8.12 Since the introduction of the strategy the Department has:
- Continued to invest heavily in learning and development.
 - Provided HR strategic support to help the Department's wider change programme through developing new ways of working and supporting departmental restructuring.
 - Developed a range of programmes across grades focused on identifying and developing talent.
 - Improved HR services by simplifying and streamlining policies and procedures.
 - Put in place a three year pay deal which provides stability and clarity to the Department's reward system.
 - Transformed HR learning functions to offer a more streamlined and strategic service.

8.13 The Department was one of the first in Whitehall to be awarded Investors in People status in 1998. This was successfully reviewed in June 2002 and more recently in May 2005, when it was once again confirmed that the Department continues to be an Investor in People.

8.14 The Department's internal training programme is key part of fulfilling the aims of the human resource strategy. The training programme is designed to help transform the Department into an even more responsive organisation that operates efficiently and effectively and delivers excellent outcomes, and one that is recognised across Whitehall and beyond as an exemplar in the development and delivery of public services. In addition to the internal training programmes staff are encouraged to undertake external training to gain a wide variety of skills and knowledge, including membership of professional bodies, undergraduate studies, etc. The Department has spent £5.2 million on course fees and expenses (excluding salary costs) related to internal and external training during 2004-05 (2003-04: £4.4 million).

8.15 The key internal training programmes are focused in the following areas:

- Management and Leadership Programme – there are three separate programmes for people working at different levels within the organisation – Executive Officer to Senior Executive Officer, Grades 7 to 5, and a Director's programme.
- Core Business Skills Programme – this programme is making a real difference to the way people do their jobs and will help them to adapt to the changing organisation. It supports all four of the HR Strategy goals for people: developing strategic capability; developing relationship management skills; managing change and working flexibly.
- Contract Management – this event is aimed at improving contract management skills and to improve risk assessment and planning.
- Finance Training – the purpose is to give staff a better understanding of finances and resource management.
- School Immersion Programme – this is an on-the-job programme which brings people into contact with their customers in schools, teachers and pupils, to gain a better understanding of customer needs.

Management**9. Ministers**

9.1 The following ministers formed the ministerial team of the department during the 2004-05 financial year:

Ruth Kelly	Secretary of State (from 16 December 2004)
Charles Clarke	Secretary of State (to 15 December 2004)
Margaret Hodge	Minister of State for Children, Young People and Families
Stephen Twigg	Minister of State for School Standards
David Miliband	Minister of State for School Standards (to 15 December 2004)
Alan Johnson	Minister of State for Lifelong Learning, Further and Higher Education (to 08 September 2004)
Dr Kim Howells	Minister of State for Lifelong Learning, Further and Higher Education (from 09 September 2004)
Catherine Ashton	Parliamentary Under Secretary of State for Extended and Inclusive Schools and DWP Minister for Sure Start (to 08 September 2004)
Lord Geoffrey Filkin	Parliamentary Under Secretary of State for Children and Families (from 10 September 2004)
Ivan Lewis	Parliamentary Under Secretary of State for Young People and Adult Skills
Derek Twigg	Parliamentary Under Secretary of State for Schools (from 17 December 2004)

9.2 As a result of a Ministerial reshuffle Stephen Twigg was promoted to Minister of State for School Standards and his previous role as Parliamentary Under Secretary of State for Schools has been taken by Derek Twigg.

10. Permanent Head of Department and the Management Board

10.1 The composition of the Management Board during the year was as follows:

Sir David Normington	Permanent Secretary
Peter Makeham	Director General, Finance and Analytical Services Directorate
Susan Thomas	Director General, Corporate Services and Development Directorate
Peter Housden	Director General, Schools Directorate
Janice Shiner	Director General, Lifelong Learning Directorate
Tom Jeffery	Director General, Children, Young People, and Families Directorate
Sir Alan Wilson	Director General, Higher Education Directorate
Michael Stevenson	Director, Strategy and Communication Directorate

10.2 In addition to the executive board member listed above, there are two non-executive board members; Lin Homer and Philip Augar. Philip Augar was appointed, on the 24 November 2004, as the new non-executive board member to replace Tim Stevenson.

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

11.1 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.

11.2 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.

12. Ministers' and Board Members' Remuneration

12.1 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.

12.2 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).

12.3 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.

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

Public Interest

13. Employment of Disabled Persons

13.1 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.

14. Equal Opportunities Policy

14.1 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.

15. Payment of Suppliers

15.1 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. During 2004-05, 96.5% of suppliers (95.5% in 2003-04) were paid within 30 days of receipt of a valid invoice. The department did not make any interest payments to suppliers under the Late Payment of Commercial Debt (Interest) Act 1988.

16. Auditor

16.1 The Comptroller and Auditor General is the auditor of the Department for Education and Skills' Financial Statements. The auditor was appointed under statute and reports to Parliament on the audit examination. The notional cost of work performed by the National Audit Office during 2004-05 totalled £300,000 for audit services.

16.2 The National Audit Office also carries out Value for Money studies. During 2004-05 the following studies were undertaken:

- Improving school attendance in England.
- Skills for life: Improving adult literacy and numeracy.

17. Employee Consultation

17.1 The Department for Education and Skills works together with its trade unions, both formally and informally, to achieve shared aims and objectives in an equal, positive and constructive relationship. It aims to promote a positive employee relations environment where staff and the trade unions can contribute constructively to a Department that leads in Education and Skills.

17.2 A formal partnership agreement is currently being negotiated with the National Trade Unions (Public and Commercial Services Union, Prospect and FDA) to help build on the positive relationship that already exists with the unions and their membership.

18. Register of Interests

18.1 The Department maintains a register of interests which contains details of company directorships and other significant interests held by Board members. The register is open for inspection by appointment at any of departmental sites in Darlington, London, Runcorn and Sheffield. Anyone wishing to view the register can contact the department as follows:

- By e-mail to: CorporateGovernanceTeam.FAD@dfes.gsi.gov.uk
- By telephone: 01928 794305
- By writing to: Corporate Governance Team, Financial Accounting Division, Area 2C, Castle View House, Runcorn, Cheshire, WA7 2GJ.

Sir David Normington
Accounting Officer for the Department for Education and Skills

27 October 2005

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.

HM 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 HM 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.

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 HM Treasury and published in *Government Accounting*.

Statement on internal control

Scope of responsibility

As Accounting Officer, I have personal 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, in accordance with the responsibilities assigned to me in Government Accounting. Within the Department I require each Directorate to sign an annual statement covering risk management and the operation of related controls in their areas of responsibility, to supplement the regular reporting to the Board on their stewardship of risks.

Similarly, the Chief Executives of the non-departmental public bodies (NDPBs), which are part of the Departmental group, 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 statutory accounts of each body.

The Departmental Board includes two non-executive members and regularly meets to discuss all strategic policy management issues. This includes providing direction on major operational issues, reviewing performance and ensuring that the Department is working economically, efficiently and effectively.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore provide a reasonable, rather than an absolute assurance, of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Board recognises the importance of leadership to create an environment where risk management is effective. Senior managers have been trained in how to effectively manage risk. Risk management has been embedded into all finance and project and programme management training. Guidance on the identification, assessment and management of risk in the Department has been fully updated and publicised to all staff during the year.

The risk and control framework

The Department's approach is to assign risks to those best placed to manage them. Therefore individual managers are responsible to the risk owners (Director Generals) for managing risk as they have knowledge of the issues involved and can best mitigate the potential impact. All managers are expected to systematically identify, assess and manage risk and document the underlying assumptions.

The risk management process is built into the Department's business planning and reporting processes. With most of the Department's expenditure being on specific programmes, the main risk management arrangements focus on the delivery of this work. There is clear accountability and ownership of risk to ensure that risk is managed at the appropriate level and there are frameworks in place to escalate risks to ensure that significant risks are reported to senior management and, if required, the Board.

The key risks facing the Department have been identified and agreed by the Board. The Board regularly reviews the key high level risks and ensures they are effectively managed. Every quarter I discuss the key Departmental risks with the Secretary of State.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the Director Generals 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 have also been advised by the Board, the Audit Committee and the Risk Committee.

The Department's internal auditors undertake an annual work programme approved by the Board to review risk management, internal control and governance. This culminates in the 'Annual Assurance Report to the Accounting Officer' produced by the Head of Internal Audit (HIA) which informs me about the effectiveness of the overall systems of internal control and risk management within the Department. In addition, this year Internal Audit have issued guidance and offered advice to Directorates within the Department to ensure issues identified through the audit work programme have been appropriately reflected in the preparation of the Directorates' annual statements.

The Audit Committee supports the Accounting Officer by offering objective advice on issues concerning the operation of control and governance of the Department. The Audit Committee is chaired by a non-executive director and its role and composition have been reviewed during 2004-05 to bring it into line with Treasury best practice guidance.

A separate Risk Committee, chaired by the Director General of the Finance, Analysis and Strategy Directorate, identifies key business risks for the Department and provides assurance to the Board and the Accounting Officer on Departmental risk management.

Internal Control issues

The Director General of the Children, Young People and Families Directorate identified significant weaknesses in three areas: Sure Start, the Children's Fund and Children's Trust grants. The Children and Family Court Advisory and Support Service (CAFCASS) NDPB also identified weaknesses in a number of specific areas. All of these issues are being addressed.

The Learning and Skills Council NDPB identified improvements necessary mainly in its management of corporate risks which are being addressed.

While recognising the above issues, as Accounting Officer I am satisfied that they do not represent a material threat to operational effectiveness, and that the Department and its NDPBs comply with the Treasury requirements on risk management, internal control and governance.

Sir David Normington

27 October 2005

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 24 to 64 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 30 to 33.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 19, 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 I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view 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 pages 20 to 21 reflects the Department's compliance with Treasury's guidance on the Statement on 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. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Controls covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department for Education and Skills at 31 March 2005 and of its 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
- 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 have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
7 November 2005

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

The maintenance and integrity of the Department's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

SCHEDULE 1**Summary of Resource Outturn 2004-05 (£000s)**

	2004-05			2004-05			Net total outturn compared with Estimate: saving/ (excess)	2003-04
	Estimate		NET TOTAL	Outturn		NET TOTAL		
	Gross expenditure	A in A		Gross expenditure	A in A			
Request for resources 1 (Note 10)	26,844,906	(260,398)	26,584,508	25,740,557	(255,699)	25,484,858	1,099,650	22,902,471
Request for resources 2 (Note 10)	1,077,506	(11,799)	1,065,707	934,773	(7,647)	927,126	138,581	718,678
Request for resources 3 (Note 10)	239,587	–	239,587	222,953	–	222,953	16,634	264,138
Total resources	28,161,999	(272,197)	27,889,802	26,898,283	(263,346)	26,634,937	1,254,865	23,885,287
Non-operating cost A in A (Note 6)			(482,575)			(434,967)	(47,608)	(364,233)
Net cash requirement			29,258,220			28,022,183	1,236,037	26,056,063

Summary 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 and figures in £000s))

	Note	Forecast 2004-05		Outturn 2004-05	
		Income	Receipts	Income	Receipts
Total	5	76,089	<i>76,089</i>	110,735	<i>111,917</i>

Explanation of variation between Estimate and outturn (net total resources)

Request for resources 1 – the outturn is £1,099,650,000 (4%) lower than the Estimate provision.

Request for resources 2 – the outturn is £138,581,000 (13%) lower than the Estimate provision. This variance has arisen primarily as a result of delays in the building of Children's Centres – further details are disclosed in para 7.6 of the Annual Report (page 11).

Request for resources 3 – the outturn is £16,634,000 (7%) lower than the Estimate provision.

See Note 10 for a breakdown of Estimate limits and outturn by Estimate line. Explanations of variances for all RfRs can be found in the Operating and Financial Review section in the Annual Report (page 9 to 11).

Explanation of the variation between Estimate net cash requirement and outturn (net cash requirement)

The actual net cash requirement is £1,236,037,537.28 (4%) lower than the estimated net cash requirement.

Reconciliation of resources to cash requirements (£000s)

	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess)
Net total resources		27,889,802	26,634,937	1,254,865
Capital:				
Acquisition of fixed assets	12 & 13	10,569	9,673	896
Investments				
Loans issued in year	14	2,551,500	2,474,933	76,567
Repurchase of sold loans	14	–	437	(437)
Non-operating A in A:				
Proceeds of fixed asset disposals	6	(575)	(64)	(511)
Repayment of loans	6	(482,000)	(434,903)	(47,097)
Transfer of function	21	–	–	–
Accruals adjustments:				
Non-cash items	3	(728,716)	(970,991)	242,275
Changes in working capital other than cash	15	7,703	(166,093)	173,796
Changes in creditors falling due after more than one year	19	–	–	–
Use of provisions		9,937	474,254	(464,317)
Net cash requirement (Schedule 4)		29,258,220	28,022,183	1,236,037

SCHEDULE 2**Operating Cost Statement**
for the year ended 31 March 2005 (£000s)

		2004-05		2003-04 (Restated)	
	Note	_____	_____	_____	_____
Administration costs:					
Staff costs	2	152,720		154,256	
Non-staff administration costs	3	<u>108,828</u>		<u>93,765</u>	
Gross administration costs:			261,548		248,021
Operating income	6		(2,924)		(10,676)
Net administration costs			<u>258,624</u>		<u>237,345</u>
Programme costs					
Request for resources 1:					
Staff costs	2	3,288		4,032	
Expenditure	4	<u>25,475,721</u>		<u>23,703,997</u>	
			25,479,009		23,708,029
Less: other programme income	6		(253,779)		(324,149)
			<u>25,225,230</u>		<u>23,383,880</u>
Request for resources 2:					
Expenditure	4		934,773		709,276
Less: income	6		(7,647)		(3,841)
			<u>927,126</u>		<u>705,435</u>
Request for resources 3:					
Expenditure	4		222,953		259,152
Less: income	6		—		(1)
			<u>222,953</u>		<u>259,151</u>
Net programme costs	4		<u>26,375,309</u>		<u>24,348,466</u>
Net operating cost	8		<u>26,633,933</u>		<u>24,585,811</u>
Net resource outturn	8		<u>26,634,937</u>		<u>23,885,287</u>

All income and expenditure reported in the Operating Cost Statement is derived from continuing operations.

Statement of Recognised Gains and Losses for the year ended

31 March 2005 (£000s)

	2004-05	2003-04
	_____	_____
Net (loss)/gain on revaluation of tangible fixed assets	5,534	(3,350)
Net (loss)/gain on revaluation of intangible fixed assets	—	—
Total recognised gains and (losses) for the financial year	<u>5,534</u>	<u>(3,350)</u>

SCHEDULE 3**Balance Sheet**

as at 31 March 2005 (£000s)

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

Sir David Normington
Accounting Officer

27 October 2005

SCHEDULE 4**Cash Flow Statement**

for the year ended 31 March 2005 (£000s)

	<u>2004-05</u>	<u>2003-04</u>
Net cash outflow from operating activities (a)	(25,978,367)	(24,672,009)
Capital expenditure and financial investment (b)	(1,940,292)	(1,991,108)
Payments of amounts due to the Consolidated Fund	(105,596)	(225,703)
Financing (c)	<u>27,911,419</u>	<u>26,829,995</u>
Increase/(decrease) in cash in the period	(112,836)	(58,825)

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

	Note	<u>2004-05</u>	<u>2003-04</u>
Net operating cost		26,633,933	24,585,811
Adjustments for non-cash transactions	3	(970,991)	(489,706)
Adjustments for movements in working capital other than cash	15	(158,829)	94,793
Use of provisions		<u>474,254</u>	<u>481,111</u>
Net cash outflow from operating activities		25,978,367	24,672,009

Analysis of capital expenditure and financial investment

	<u>2004-05</u>	<u>2003-04</u>
Intangible fixed asset additions (Note 13)	1,381	672
Tangible fixed assets additions (Note 12)	8,292	11,834
Proceeds from disposal of fixed assets (Note 6)	(64)	(1,366)
Loans to other bodies (Note 14)	2,474,933	2,402,309
Repurchase of sold loans (Note 14)	437	-
Repayment of loans (Note 14)	(544,687)	(421,817)
Increase/(decrease) in investments	<u>-</u>	<u>(524)</u>
Net cash outflow from investing activities	1,940,292	1,991,108

Analysis of financing and reconciliation to the net cash requirement

	<u>2004-05</u>	<u>2003-04</u>
From Consolidated Fund – current year ¹	27,903,025	26,075,021
From Consolidated Fund – prior year ²	-	-
Advances from the Contingencies Fund	-	-
Repayment to the Contingencies Fund	-	-
Transfer from Dept of Health	7,607	644,406
Transfer from Dept of Health – capital (Note 21)	-	171
Transfer from Home Office	98	7,363
Transfer from Dept for Constitutional Affairs	<u>689</u>	<u>103,034</u>

Net financing	27,911,419	26,829,995
(Increase)/decrease in cash	112,836	58,825

Net cash flows other than financing	28,024,255	26,888,820
--	-------------------	-------------------

Adjustments for payments and receipts not related to Supply:

CFERs received in year and not paid over	19,141	12,819
CFERs received in prior year and paid over	(12,819)	(90,602)
Transfer from Dept of Health	(7,607)	(644,406)
Transfer from Dept of Health – capital (Note 21)	-	(171)
Transfer from Home Office	(98)	(7,363)
Transfer from Dept for Constitutional Affairs	(689)	(103,034)

Adjustment for payments financed from Contingencies Fund**advances accounted for on Schedule 1 in a different year****(in accordance with Government Accounting):**

Current year payments accounted for on Schedule 1 in the following year	-	-
---	---	---

Net cash requirement (Schedule 1)	28,022,183	26,056,063
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¹ Amount of grant actually issued to the department to support the net cash requirement = £27,903,024,628.00² Amount of grant actually issued to the department to support the prior year net cash requirement = £0.00

SCHEDULE 5**Resources by Departmental Aim and Objectives**

for the year ended 31 March 2005 (£000s)

	<u>Gross</u>	<u>2004-05 Income</u>	<u>Net</u>	<u>Gross</u>	<u>2003-04 Income</u>	<u>Net</u>
AIM: Our aim is to help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; enable all young people to develop and to equip themselves with the skills, knowledge and personal qualities needed for life and work; and achieving excellence in standards of education and levels of skills.						
Objective 1	4,795,776	(10,911)	4,784,865	4,582,640	(29,763)	4,552,877
Objective 2	11,759,471	(11,883)	11,747,588	11,065,759	(34,522)	11,031,237
Objective 3	10,343,036	(241,556)	10,101,480	9,276,079	(274,382)	9,001,697
Net Operating Costs	<u>26,898,283</u>	<u>(264,350)</u>	<u>26,633,933</u>	<u>24,924,478</u>	<u>(338,667)</u>	<u>24,585,811</u>

The Department's objectives were as follows:

- Objective 1** – Give children an excellent start in education so that they have a better foundation for future learning.
- Objective 2** – Enable all young people to develop and to equip themselves with the skills, knowledge and personal qualities needed for life and work.
- Objective 3** – Encourage and enable adults to learn, improve their skills and enrich their lives.

See note 23 for further analysis of expenditure and capital employed by objective.

Notes to the departmental resource accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2004-05 *Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items 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 as defined in the RAM (Section 1.5), their results have not been consolidated into these accounts.

1.3 Tangible fixed assets

The minimum level for capitalisation of capital expenditure as 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. The asset value on capitalisation is measured at cost plus any costs, such as installation, directly attributable to bringing them into working condition.

All tangible fixed assets are restated to current value each year. Freehold land and buildings have been restated at current cost using professional valuations in accordance with FRS15 every 5 years and by using appropriate indices supplied by HM Treasury in the intervening years. Other tangible assets have been stated at current cost using appropriate indices published by the Office for National Statistics.

1.4 Depreciation

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. Freehold land is not depreciated.

Asset lives are normally in the following ranges:

Freehold Land & Buildings	up to 50 years
Furniture & Fittings	7–10 years
Plant and Machinery	3–10 years
Information Technology	3–7 years
Transport Equipment	5–8 years

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

1.5 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 the shorter of the licence period or its useful economic life limited to a range of 2–5 years. The value of the intangible assets has been stated at current cost, using appropriate indices published by the Office for National Statistics.

Notes to the departmental resource accounts *(continued)*

1.6 Investments

The Department currently holds two types of loan on its balance sheet, namely:

- loans to students via the Student Loans Company; and
- loans to schools to fund capital projects.

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.

See note 1.17 for the accounting policies relating to student loan provisions.

1.7 Stocks

Stocks are valued as finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used.

1.8 Research and development

Expenditure on research and development has been treated as programme expenditure in the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are 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.

1.9 Operating income

Operating income is income which relates directly to the operating activities of the department. It includes both income appropriated-in-aid to the Estimate, (such as general administration receipts and income from other departments for payment to DfES's NDPBs), and income to the Consolidated Fund that HM Treasury has agreed should be treated as operating income. It is stated net of VAT.

1.10 Administration and programme expenditure

The operating cost statement is analysed between administration and programme costs. The classification of expenditure and income as administration or programme follows the definition of costs set by HM Treasury.

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. The Department has authority from HM Treasury to treat certain staff costs as programme costs where they relate directly to programme delivery, i.e. the administration of the Special Educational Needs and Disability Tribunals.

1.11 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 3.5% in real terms on the average balances of all assets less liabilities, except for Consolidated Fund balances and Office of the Paymaster General bank balances.

Notes to the departmental resource accounts *(continued)*

1.12 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.

1.13 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme and is non-contributory and unfunded. The Department recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

1.14 Leases

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

1.15 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, and for compensation payments payable to employees who take early severance. The Department provides for the costs when the early departure programme has been announced and is binding on the Department. In the 2004-05 Accounts the Department has provided for the estimated costs anticipated post 31 March 2005. In earlier years the Department could, 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. The balance of pre-funded costs is included in the debtor balance as a prepayment.

1.16 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 entitlement to the grant has arisen during the period it will be accrued in the Operating Cost Statement and shown as a liability on the Balance Sheet.

1.17 Provisions

The Department has created provisions for the following liabilities:

- Early departure costs.
- Student support costs related to student loans.
- Property costs related to the former Training and Enterprise Councils (TECs).
- Partnerships for Schools payments.
- Centre for British Teachers pension costs.

The early departure costs provision is based on the future costs of those staff who have taken early release from the date they leave the Department up to the date they retire and the pension costs are met from the PCSPS. The cash flows have been discounted using the HM Treasury discount rate of 3.5% to reflect the current value of the liabilities.

The student support provisions are based on the Department's best estimate of the amount and timing of the future liabilities to the government of subsidising interest on loans and potential loan write offs. The Department's accounting policy for accounting for the interest subsidy provision follows the Financial Reporting Advisory Board instructions. Given the long term nature of both provisions, the

Notes to the departmental resource accounts *(continued)*

time value of money is significant, the provisions are discounted using the HM Treasury discount rate of 3.5% in real terms.

For further information on the accounting policies relating to student loans see Note 1.6.

The TEC Property provision recognises the liabilities related to properties where the lease could not be reassigned following the closure of the TECs. The disposal of the properties is being managed by Department's Corporate Services specialists, who anticipate that all leases will either be reassigned or expire by 2018. The size of the provision is based on the costs up to the planned disposal date of individual properties, net of any contributions towards costs. The estimated cash flows have been discounted using the HM Treasury discount rate of 3.5%.

The Partnerships for Schools (PfS) provision recognises the liability to fund performance related payments payable to Partnerships UK for performance achieved during the current financial year. The provision is based on estimates supplied by PfS.

The Centre for British Teachers (CfBT) provision recognises the liability to fund the pensions deficit owed to the London Pensions Fund Authority in relation to the CfBT staff affected by the termination of the contract between DfES and CfBT. The provision is based on the current best actuarial estimate of the potential shortfall. The pension fund is being revalued by the Government Actuary's Department and the actual liability will be reported during 2005-06.

1.18 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement;
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.19 Value Added Tax

Most of the activities of the department are outside the scope of VAT and, in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Notes to the departmental resource accounts *(continued)*

2. Staff numbers and related costs

2.1 Staff costs

	2004-05				2003-04	
	£000				(Restated) £000	
	Total	Permanently employed staff	Other ¹	Ministers	Special Advisors	Total ²
Wages and salaries	128,139	124,644	3,044	354	97	130,440
Social security costs	10,334	10,238	49	36	11	10,351
Other pension costs	17,535	17,445	79		11	17,497
Sub Total	156,008	152,327	3,172	390	119	158,288
Charged to admin staff costs	152,720	149,039	3,172	390	119	154,256
Charged to programme costs	3,288	3,288				4,032
	156,008	152,327	3,172	390	119	158,288
Less recoveries in respect of outward secondments	(1,632)	(1,632)				(2,390)
Total Net Costs	154,376	150,695	3,172	390	119	155,898

¹The fees paid for agency staff is a flat hourly fee, including social security, holiday pay, pension costs etc. For the purposes of this note the total amount is disclosed as wages and salaries.

All early departure costs are now included within non-staff administration (note 3) rather than staff costs. The 2003-04 comparative figures have been restated accordingly.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department for Education and Skills is unable to identify its share of the scheme's underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employer contributions of £17,529,105 were payable to the PCSPS (2003-04: £17,455,539) at one of four rates in the range 12 to 18.5% (2003-04: 12 to 18.5%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2005-06, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £5,640.46 (2003-04: £41,711) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% (2003-04: 3 to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,513.34 (2003-04: £4,758), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

9 persons retired early on ill-health grounds (2003-04: 3 persons); the total additional accrued pension liabilities in the year amounted to £76,571 (2003-04: £29,392).

Notes to the departmental resource accounts *(continued)*

2.2 Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

Objective	Total	2004-05			Special Advisors	2003-04 Number
		Number Permanently employed staff	Others	Ministers		
1	1,386.9	1,343.0	41.0	2.3	0.6	1,629.4
2	1,922.1	1,862.0	56.0	3.3	0.8	2,268.8
3	1,038.0	1,017.0	19.0	1.4	0.6	973.8
Number of staff charged to admin costs	4,347.0	4,222.0	116.0	7.0	2.0	4,872.0
Number of staff charged to Programme expenditure						
– Objective 1	32.5	32.5				29.0
– Objective 2	32.5	32.5				30.0
TOTAL	4,412.0	4,287.0	116.0	7.0	2.0	4,931.0

Notes to the departmental resource accounts *(continued)*

2.3 Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and the board members of the Department.

A Remuneration

	2004-05		2003-04	
	Salary	Benefits in kind (rounded to nearest £100)	Salary	Benefits in kind (rounded to nearest £100)
Ministers				
Rt. Hon Ruth KELLY MP <i>Secretary of State (from 16 December 2004)</i>	£21,348 ²	–	N/A	N/A
Rt. Hon Charles CLARKE MP <i>Secretary of State (to 15 December 2004)</i>	£54,646 ³	–	£71,433	–
Margaret HODGE MBE MP <i>Minister of State</i>	£37,796	–	£37,055	–
Stephen TWIGG MP <i>Minister of State (from 17 December 2004, prior to this Parliamentary Under Secretary from 1 April to 16 December 2004)</i>	£31,332	–	£28,125	–
David MILIBAND MP <i>Minister of State (to 15 December 2004)</i>	£28,347 ⁴	–	£37,055	–
Alan JOHNSON MP <i>Minister of State (to 8 September 2004)</i>	£18,898 ⁵	–	£29,335 ¹	–
Dr Kim HOWELLS MP <i>Minister of State (from 9 September 2004)</i>	£21,208 ⁶	–	N/A	N/A
Baroness Catherine ASHTON <i>Parliamentary Under Secretary of State (to 8 September 2004)</i>	£47,854 ⁷	–	£93,656	–
Lord Geoffrey FILKIN CBE <i>Parliamentary Under Secretary of State (from 10 September 2004)</i>	£55,415 ⁸	–	N/A	N/A
Ivan LEWIS MP <i>Parliamentary Under Secretary of State</i>	£28,688	–	£28,125	–
Derek TWIGG MP <i>Parliamentary Under Secretary of State (from 17 December 2004)</i>	£8,252 ⁹	–	N/A	N/A

¹Figure quoted is for the period 16 June 2003 to 31 March 2004. The full year equivalent is £37,055.

²Figure quoted is for the period 16 December 2004 to 31 March 2005. The full year equivalent is £72,862.

³Figure quoted is for the period 1 April 2004 to 15 December 2004. The full year equivalent is £72,862.

⁴Figure quoted is for the period 1 April 2004 to 15 December 2004. The full year equivalent is £37,796.

⁵Figure quoted is for the period 1 April 2004 to 8 September 2004. The full year equivalent is £37,796.

⁶Figure quoted is for the period 9 September 2004 to 31 March 2005. The full year equivalent is £37,796.

⁷Figure quoted is for the period 1 April 2004 to 8 September 2004. The full year equivalent is £100,254.

⁸Figure quoted is for the period 10 September 2004 to 31 March 2005. The full year equivalent is £100,254.

⁹Figure quoted is for the period 17 December 2004 to 31 March 2005. The full year equivalent is £28,688.

Notes to the departmental resource accounts *(continued)*

2.3 Salary and pension entitlements *(continued)*

	2004-05		2003-04	
	Salary £000	Benefits in kind (rounded to nearest £100)	Salary £000	Benefits in kind (rounded to nearest £100)
Officials				
Sir David NORMINGTON <i>Permanent Secretary</i>	160-165	–	155-160	–
Mr Peter HOUSDEN <i>Director General</i>	150-155	2,200	150-155	2,500
Mr Tom JEFFREY <i>Director General (from 10 November 2003)</i>	115-120	–	40-45 <i>(110-115 full year equivalent)</i>	–
Mr Peter MAKEHAM <i>Director General</i>	135-140	–	130-135	–
Mrs Janice SHINER <i>Director General</i>	135-140	–	125-130	–
Mr Michael STEVENSON <i>Director (from 09 June 2003)</i>	105-110	–	85-90 <i>(105-110 full year equivalent)</i>	–
Mrs Susan THOMAS <i>Director General</i>	115-120	–	105-110	–
Sir Alan WILSON <i>Director General (from 1 August 2004)</i>	135-140 <i>(150-155 full year equivalent)</i>	–	N/A	–

Salary

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

See Note 3 for information on the non-executive board members remuneration.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£57,485, 2003-04: £56,358) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. An interest free advance of salary for house purchase loan was made to a Director General. The outstanding balance at 31 March 2005 was £41,500. The notional interest on this loan is regarded as a taxable benefit.

Notes to the departmental resource accounts *(continued)***B Pension Benefits**

	Accrued pension at age 65 at 31/10/05	Real increase in pension at age 65	CETV at 31/03/05	CETV at 31/03/04	Real increase in CETV
	£000	£000	£000	£000	£000
Ministers					
Rt. Hon Ruth KELLY MP <i>Secretary of State (from 16 December 2004)</i>	0-5	0-2.5	21	18	1
Rt. Hon Charles CLARKE MP <i>Secretary of State (to 15 December 2004)</i>	0-5	0-2.5	53	41	7
Margaret HODGE MBE MP <i>Minister of State</i>	5-10	0-2.5	65	50	7
Stephen TWIGG MP <i>Minister of State (from 17 December 2004, prior to this Parliamentary Under Secretary from 1 April to 16 December 2004)</i>	0-5	0-2.5	19	13	2
David MILIBAND MP <i>Minister of State (to 15 December 2004)</i>	0-5	0-2.5	17	12	2
Alan JOHNSON MP <i>Minister of State (to 08 September 2004)</i>	0-5	0-2.5	39	35	2
Dr Kim HOWELLS MP <i>Minister of State (from 09 September 2004)</i>	5-10	0-2.5	64	59	1
Baroness Catherine ASHTON <i>Parliamentary Under Secretary of State (to 08 September 2004)</i>	5-10	0-2.5	46	39	4
Lord Geoffrey FILKIN CBE <i>Parliamentary Under Secretary of State (from 10 September 2004)</i>	5-10	0-2.5	68	56	5
Ivan LEWIS MP <i>Parliamentary Under Secretary of State</i>	0-5	0-2.5	18	12	2
Derek TWIGG MP <i>Parliamentary Under Secretary of State (from 17 December 2004)</i>	0-5	0-2.5	12	10	1

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since

Notes to the departmental resource accounts *(continued)*

15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate.

Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This takes account of the increase in accrued pension due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

Notes to the departmental resource accounts (continued)

Officials	Accrued pension age 60 as at 31/03/05 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/05	CETV at 31/03/04	Real increase in CETV	Employer contribution to Partnership pension account
	£000	£000	£000	£000	£000	nearest £100
Sir David NORMINGTON <i>Permanent Secretary</i>	60-65 plus 180-185 lump sum	2.5-5 plus 7.5-10 lump sum	1,026	924	41	–
Mr Peter HOUSDEN <i>Director General</i>	0-5 plus 10-15 lump sum	0-2.5 plus 2.5-5 lump sum	75	51	20	–
Mr Tom JEFFREY <i>Director General</i> <i>(from 10 November 2003)</i>	30-35 plus 100-105 lump sum	2.5-5 plus 7.5-10 lump sum	571	488	51	–
Mr Peter MAKEHAM <i>Director General</i>	50-55 lump sum n/a Premium	0-2.5 lump sum n/a Premium	693	632	29	–
Mrs Janice SHINER <i>Director General</i> Pensions Capped	30-35 lump sum n/a Premium	0-2.5 lump sum n/a Premium	486	443	21	–
Mr Michael STEVENSON <i>Director (from 9 June 2003)</i> Pensions Capped	0-5 lump sum n/a Premium	0-2.5 lump sum n/a Premium	31	14	11	–
Mrs Susan THOMAS <i>Director General</i>	35-40 plus 105-110 lump sum	0-2.5 plus 2.5-5 lump sum	629	572	20	–
Sir Alan WILSON <i>Director General</i> <i>(from 1 August 2004)</i>	0-5 lump sum n/a Premium	0-2.5 lump sum n/a Premium	17	N/A	14	–

Civil Service Pensions (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic, accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they

Notes to the departmental resource accounts *(continued)*

do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Notes to the departmental resource accounts *(continued)*

3. Non-staff administration costs

	2004-05		2003-04 (Restated)	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	758		869	
Other operating leases	19,080	19,838	21,183	22,052
Non-cash items (administration costs note a):				
Depreciation and amortisation of fixed assets:				
Civil Estate	864		815	
Other tangible fixed assets	7,272		7,501	
Intangible fixed assets	774		806	
Permanent diminution in fixed asset values	706		731	
Loss on disposal of fixed assets	46		60	
Cost of capital charge:				
Civil Estate	1,079		1,116	
Other items	168		183	
Auditor's remuneration	300		300	
Early departure provisions:				
Provided in year	18,474		2,464	
Change in interest rate	–		1,427	
Provision not required written back	(595)		(655)	
Unwinding of discount	662		893	
Total administration non-cash items		29,750		15,641
Professional fees		8,318		6,652
Travel and subsistence		7,684		8,513
Consultancy		4,895		6,534
Rates and service charges		5,714		5,881
Computers and telecoms costs		8,378		9,093
Utilities		1,251		1,071
Advertising and publicity		631		876
Other office services		7,926		9,110
Early departure costs not provided for		8,329		264
Other expenditure		6,114		8,078
Non-staff administration costs		108,828		93,765

A number of changes have been made to the way the non-staff administration costs note has been analysed this year. As described in note 2, all early departure costs are now disclosed within the non-staff rather than within staff costs. Also, part of the expenditure previously included within non-staff other expenditure line has been analysed further and the IT support costs of £2,741,061 (2003-04: £2,379,000) previously included within the professional fees line have been moved to the new 'computers and telecoms costs' line. The 2003-04 comparative figures have been restated accordingly.

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.

The 'Other expenditure' heading above includes £8,500 remuneration paid to Tim Stevenson, the former non-executive board member. The other non-executive board members, Lin Homer and Philip Augar (appointed as the new non-executive board member to replace Tim Stevenson), did not receive any remuneration from the Department.

Note a – the total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cash Flows in Schedule 4 comprises:

Notes to the departmental resource accounts *(continued)*

3. Non-staff administration costs *(continued)*

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Other administration costs – non-cash items (as above)	29,750	15,641
Programme non-cash costs charged to operating expenditure (see note 4)	941,245	474,542
Less non-cash income		
Profit on sale of fixed assets	(4)	(477)
Total non-cash transactions	<u>970,991</u>	<u>489,706</u>

4. Net programme costs

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
	Note	
Current grants and other current expenditure	26,307,146	24,414,226
Research and development costs	17,587	12,527
Cost of capital on programmes:	312,002	249,704
Gross programme spend	26,636,735	24,676,457
Less programme income	6 (261,426)	(327,991)
	<u>26,375,309</u>	<u>24,348,466</u>
Included in programme costs are the following non-cash items		
Cost of capital on programmes	312,002	249,704
Depreciation	545	476
Permanent diminution in fixed asset values	24	–
Provisions:	20	
Provided in year	977,175	820,312
Change in interest rate		(697,477)
Release of provision	(420,189)	(39,417)
Unwinding of discount	103,487	109,064
Student loans capitalised interest	14 (270,128)	(205,172)
Student loans domicile adjustment	14 (39)	(288)
Student loans repurchased sold debt	14	(631)
Admin charges applied to student loans	14 (1,598)	(1,966)
Repayment of Teachers' Loans	14 21,394	8,100
Student loan interest subsidy inflation adjustment	21 218,572	231,837
Total programme non-cash items	<u>941,245</u>	<u>474,542</u>

Notes to the departmental resource accounts *(continued)*

5. 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)

	Forecast 2004-05		Outturn 2004-05	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Operating income and receipts - excess A in A:				
– relating to 2003-04	–	–	–	341
– relating to 2004-05	–	–	–	–
Non-operating income and receipts - excess A in A				
Subtotal	–	–	–	341
Other operating income and receipts not classified as A in A	–	–	1,004	1,006
Other non-operating income and receipts not classified as A in A	–	–	109,731	110,570
Other amounts collectable on behalf of the Consolidated Fund	76,089	76,089	–	–
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total	76,089	76,089	110,735	111,917

6. Income and appropriations in aid

6.1 Operating income

Operating income not appropriated in aid (i.e. surrenderable 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 8). In 2004-05, all operating income not classified as Appropriations in Aid was within public expenditure.

	2004-05					Operating Cost Statement Income £000
	Resource Outturn	Reconciliation to Operating Cost Statement			Transactions between requests for resources	
	Appropriations in Aid £000	Transfer of Estimate cover £000	Netted off gross expenditure in sub-head £000	Payable to Consolidated Fund £000	£000	£000
Administration income:						
Fees and charges to external customers	–	–	–	–	–	–
Profit on disposal of assets	(4)	–	–	–	–	(4)
Rental income						
– from within DfES group	–	–	–	–	–	–
– from Other Govt Depts	–	–	–	–	–	–
– from external tenants	(1,488)	–	–	–	–	(1,488)
Other miscellaneous	(1,432)	–	–	–	–	(1,432)
	(2,924)	–	–	–	–	(2,924)
Programme income:						
Income from DTI for payment to HEFCE	(227,643)	–	–	–	–	(227,643)
Rental income from within DfES group	(5,157)	–	–	–	–	(5,157)
Other income	(27,622)	–	–	(1,004)	–	(28,626)
	(260,422)	–	–	(1,004)	–	(261,426)
Total	(263,346)	–	–	(1,004)	–	(264,350)

Notes to the departmental resource accounts (continued)

6.1 Operating income (continued)

	Resource Outturn	2003-04 Reconciliation to Operating Cost Statement				Operating Cost Statement Income £000	
		Appropriations in Aid £000	Transfer of Estimate cover £000	Netted off gross expenditure in sub-head £000	Payable to Consolidated Fund £000		Transactions between requests for resources £000
Administration income:							
Profit on disposal of assets	(477)	-	-	-	-	(477)	
Rental income							
- from within DfES group	(5,429)	-	-	-	-	(5,429)	
- from Other Govt Depts	-	-	-	-	-	-	
- from external tenants	(1,098)	-	-	-	-	(1,098)	
Other miscellaneous	(3,672)	-	-	-	-	(3,672)	
	<u>(10,676)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,676)</u>	
Programme income:							
Income from DTI for payment to HEFCE	(244,053)	-	-	-	-	(244,053)	
Rental income from within DfES group	-	-	-	-	-	-	
Transfer of functions	(763,197)	763,197	-	-	-	-	
Other income	(21,265)	-	-	(62,673)	-	(83,938)	
	<u>(1,028,515)</u>	<u>763,197</u>	<u>-</u>	<u>(62,673)</u>	<u>-</u>	<u>(327,991)</u>	
Total	<u>(1,039,191)</u>	<u>763,197</u>	<u>-</u>	<u>(62,673)</u>	<u>-</u>	<u>(338,667)</u>	

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

	2004-05			2003-04		
	Income £000	Full cost £000	Surplus/ deficit £000	Income £000	Full cost £000	Surplus/ deficit £000
Careers Services	(196)	3,025	2,829	(598)	1,773	1,175
	<u>(196)</u>	<u>3,025</u>	<u>2,829</u>	<u>(598)</u>	<u>1,773</u>	<u>1,175</u>

6.2 Non-operating income not classified as Appropriations in Aid

	2004-05		2003-04	
	Income £000	Receipts £000	Income £000	Receipts £000
Student loans interest repayments	109,784	110,570	58,950	54,584

Non-operating Appropriations in Aid

	2004-05		2003-04	
	Income £000	Receipts £000	Income £000	Receipts £000
Principal repayments of student loans	434,869	458,471	362,123	335,294
Principal repayments of loans to schools	34	34	744	737
Proceeds from disposal of fixed assets	64	64	1,366	1,366
	<u>434,967</u>	<u>458,569</u>	<u>364,233</u>	<u>337,397</u>

Notes to the departmental resource accounts *(continued)*

7. Administration cost limits

From 1 April 2004 the DfES has operated under a single administration cost limit for all requests for resource within RfR1. The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

	2004-05		2003-04	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for resources 1	258,624	258,786	218,030	219,920
Request for resources 2			12,902	13,404
Request for resources 3			4,987	5,581
Total within administration cost control	<u>258,624</u>	<u>258,786</u>	<u>235,919</u>	<u>238,905</u>
Administration expenditure excluded from administration cost limit		-		
Administration income allowable within the administration cost limit		2,924		
Total administration outturn	<u>261,548</u>			

8. Reconciliation of net operating cost and net resource outturn

	2004-05	2003-04
	£000	£000
Net operating cost (note a)	26,633,933	24,585,811
Add: – Excess Appropriations in Aid (Note 5)	-	341
Add: – Operating income not classified as A in A but within public expenditure (Note 5) (All other CFERs not including student loans)	1,004	62,332
– Adjust for transfer of Estimate cover in respect of transfer of functions	-	(763,197)
Net resource outturn (note a)	26,634,937	23,885,287

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 departmental resource accounts *(continued)*

9. Analysis of net operating cost by spending body

	2004-05		2003-04
	Budget	Outturn	Outturn
	£000	£000	£000
Spending body:			
Non-departmental public bodies (NDPBs):			
Adult Learning Inspectorate (ALI)	30,712	26,655	26,700
British Educational Communications and Technology Agency (BECTA)	11,600	11,600	11,155
Children and Family Court Advisory and Support Services (CAFCASS)	107,000	102,543	97,499
Higher Education Funding Council for England (HEFCE)	6,331,843	6,044,764	5,608,837
Investors in People UK Ltd (IiP UK)	5,310	5,235	4,726
Learning and Skills Council (LSC)	9,030,386	8,956,913	8,604,300
National College of School Leadership (NCSL)	104,956	114,687	85,291
Office for Fair Access (OFFA)	500	500	–
Partnerships for Schools (Pfs)	8,000	3,477	–
Qualifications and Curriculum Authority (QCA)	155,014	118,271	81,657
Sector Skills Development Agency (SSDA)	81,923	64,080	30,243
Student Loans Company Ltd (SLC)	45,273	41,563	45,548
Teacher Training Agency (TTA)	552,231	564,093	514,301
Public Corporations:			
General Teaching Council (GTC)	3,007	–*	1,463
Local Authorities	6,491,238	6,483,866	6,425,768
Other DfES	4,930,809	4,095,686	3,048,323
Total	27,889,802	26,633,933	24,585,811

* As GTC now receive grants rather than Grant in Aid, the payments made to GTC during 2004-05 are included within the 'Other DfES' outturn figure.

Notes to the departmental resource accounts (continued)

10. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement

	2004-05							Net total outturn compared with Estimate
	Admin.	Other current	Grants	Gross resource expend- iture	A in A	Net Total	Estimate	
Request for resources – 1 To help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; and achieving excellence in standards of education and levels of skills								
A Activities to support all functions	261,548	35,403	5,413	302,364	(8,527)	293,837	315,134	21,297
B Support for Schools, and Teachers not paid through LEAs	–	31,620	790,976	822,596	(407)	822,189	951,488	129,299
C Support to Children and Families not paid through LEAs	–	46,441	675,350	721,791	(1,225)	720,566	747,502	26,936
D Higher Education	–	102,976	24,767	127,743	(105)	127,638	65,258	(62,380)
E Higher Education Receipts from DTI	–	–	–	–	(227,643)	(227,643)	(230,890)	(3,247)
F Further Education, Adult Learning and Skills for Lifelong Learning and International Programmes	–	56,290	350,839	407,129	(14,808)	392,321	468,260	75,939
G Support for Students in Higher Education	–	–	1,109,394	1,109,394	–	1,109,394	1,561,281	451,887
H Compensation to former College of Education Staff	–	–	11,249	11,249	–	11,249	8,688	(2,561)
I Current Grants for LEAs to Support Schools and Teachers	–	–	3,358,290	3,358,290	–	3,358,290	3,302,641	(55,649)
J Capital Grants for LEAs to Support Schools	–	–	2,357,689	2,357,689	(53)	2,357,636	2,431,337	73,701
K Higher Education Fees and Awards through LEAs	–	–	11,057	11,057	–	11,057	10,000	(1,057)
L Current Grants to LEAs to Support Children and Families	–	–	203,608	203,608	(293)	203,315	203,204	(111)
M Capital Grants to LEAs to Support Children and Families	–	–	13,319	13,319	–	13,319	13,350	31
N Education Maintenance Allowance's not through LEAs	–	–	188,657	188,657	–	188,657	214,000	25,343
O Education Maintenance Allowance's through LEAs	–	–	50,567	50,567	–	50,567	55,500	4,933
P Grant in Aid to NDPBs supporting Schools	–	–	693,858	693,858	–	693,858	679,794	(14,064)
Q Grant in Aid to NDPBs supporting Children and Families Schools	–	–	220,814	220,814	–	220,814	262,014	41,200
R Loans to Students and Grant in Aid to NDPBs supporting Higher Education	–	–	6,087,549	6,087,549	(2,638)	6,084,911	6,377,616	292,705
S Grant in Aid to NDPBs supporting Further Education, Adult Education and Skills and Lifelong Learning	–	–	9,052,883	9,052,883	–	9,052,883	9,148,331	95,448
Total	261,548	272,730	25,206,279	25,740,557	(255,699)	25,484,858	26,584,508	1,099,650
Request for resources 2 – Promoting the physical, intellectual and social development of babies and young children through Sure Start, Early Years provision and Childcare								
A Sure Start Administration Costs and Current Grants	–	47	502,045	502,092	(7,647)	494,445	590,501	96,056
B LA Current grants	–	–	288,377	288,377	–	288,377	338,151	49,774
C LA Capital grants	–	–	144,304	144,304	–	144,304	137,055	(7,249)
Total	–	47	934,726	934,773	(7,647)	927,126	1,065,707	138,581
Request for resources 3 – Tackling child poverty and social exclusion by helping vulnerable children and young people, and their families to break the cycle of deprivation and disadvantage through the Children's Fund								
A Children's Fund	–	6,268	216,685	222,953	–	222,953	239,587	16,634
Total	–	6,268	216,685	222,953	–	222,953	239,587	16,634
Resource Outturn	261,548	279,045	26,357,690	26,898,283	(263,346)	26,634,937	27,889,802	1,254,865

Notes to the departmental resource accounts (continued)

Reconciliation to Operating Cost Statement

	Gross resource expend- iture	A in A	Net Total
Non-Supply expenditure	–	–	–
Income payable to the Consolidated Fund	–	(1,004)	(1,004)
Excess A in A	–	–	–
Gross operating expenditure	<u>26,898,283</u>	–	–
Operating income	–	<u>(264,350)</u>	–
Net operating cost	–	–	<u>26,633,933</u>

	2003-04						Net total outturn compared with	
	Admin.	Other current	Grants	Gross resource expend- iture	A in A	Net Total	Estimate	Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources – 1 To help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; and achieving excellence in standards of education and levels of skills								
A Support for Schools and Teachers not paid through LEAs	–	11,311	689,152	700,463	(592)	699,871	797,387	97,516
B Capital Modernisation Fund supporting all Functions	–	–	27,344	27,344	–	27,344	49,649	22,305
C Support for Young People, Families and International Services	–	67,161	604,740	671,901	(9,094)	662,807	667,494	4,687
D Higher Education	–	10,014	115,856	125,870	(80)	125,790	140,714	14,924
E Further Education, Adult Learning and Lifelong Learning	–	55,000	268,804	323,804	(9,288)	314,516	398,928	84,412
F Support for Students in Higher Education	–	–	1,249,456	1,249,456	–	1,249,456	1,465,103	215,647
G Activities to support all functions	230,132	34,934	637	265,703	(10,958)	254,745	263,314	8,569
H Compensation to former College of Education Staff	–	–	12,071	12,071	–	12,071	11,633	(438)
I Grants for LEAs to Support Schools and Teachers	–	–	3,217,647	3,217,647	–	3,217,647	3,119,654	(97,993)
J Capital grants for LEAs to Support Schools	–	–	2,064,380	2,064,380	(76)	2,064,304	2,163,470	99,166
K Higher Education Fees and Awards through LEAs	–	–	67,755	67,755	–	67,755	75,500	7,745
L Capital Modernisation Fund through Local Authorities	–	–	71,098	71,098	–	71,098	60,490	(10,608)
M Education Maintenance Allowances not through LEAs	–	–	17,496	17,496	–	17,496	9,800	(7,696)
N Education Maintenance Allowances through LEAs	–	–	124,015	124,015	–	124,015	208,200	84,185
O Grant in Aid to NDPBs supporting Schools	–	–	612,211	612,211	–	612,211	598,745	(13,466)
P Grant in Aid to NDPBs supporting Young people and Families	–	–	179,156	179,156	–	179,156	192,189	13,033
Q Loans to Students and Grant in Aid to NDPBs supporting Higher Education	–	–	4,954,940	4,954,940	1,648	4,956,588	4,934,113	(22,475)
R Grant in Aid to NDPBs supporting Further Education, Adult Education and Skills and Lifelong Learning	–	–	8,665,969	8,665,969	–	8,665,969	8,681,878	15,909
S Payments from the Dept of Health	–	–	–	–	(652,013)	(652,013)	(652,013)	–
T Payments from the Home Office	–	–	–	–	(7,461)	(7,461)	(7,461)	–
U Payments from the Dept of Constitutional Affairs	–	–	–	–	(103,723)	(103,723)	(103,723)	–
V Current grants to LEAs to support children and families	–	–	585,763	585,763	–	585,763	578,014	(7,749)
W Capital grants to LAs to support children and families	–	–	1,119	1,119	–	1,119	6,178	5,059
X Support for Students in Higher Education	–	–	–	–	(244,053)	(244,053)	(259,638)	(15,585)
Total	<u>230,132</u>	<u>178,420</u>	<u>23,529,609</u>	<u>23,938,161</u>	<u>(1,035,690)</u>	<u>22,902,471</u>	<u>23,399,618</u>	<u>497,147</u>

Notes to the departmental resource accounts (continued)

	Admin.	Other current	Grants	Gross resource expenditure	A in A	Net Total	Estimate	Net total outturn compared with Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 2 – Promoting the physical, intellectual and social development of babies and young children through Sure Start, Early Years provision and Childcare								
A Sure Start Administration Costs and Current Grants	12,902	788	414,422	428,112	(3,500)	424,612	469,130	44,518
B Current grants to Local Authorities	–	–	253,518	253,518	–	253,518	226,798	(26,720)
C Capital grants to Local Authorities	–	–	40,548	40,548	–	40,548	29,511	(11,037)
Total	12,902	788	708,488	722,178	(3,500)	718,678	725,439	6,761
Request for resources 3 – Tackling child poverty and social exclusion by helping vulnerable children and young people, and their families to break the cycle of deprivation and disadvantage through the Children's Fund								
A The Children's Fund	4,987	237	258,915	264,139	(1)	264,138	285,476	21,338
Total	4,987	237	258,915	264,139	(1)	264,138	285,476	21,338
Resource Outturn	248,021	179,445	24,497,012	24,924,478	(1,039,191)	23,885,287	24,410,533	525,246

Reconciliation to Operating Cost Statement

	Gross resource expenditure	A in A	Net Total
Non-Supply expenditure			–
Transfer of functions – lines S, T and U		763,197	763,197
Income payable to the Consolidated Fund		(62,332)	(62,332)
Excess A in A		(341)	(341)
Gross operating expenditure	24,924,478		
Operating income		(338,667)	
Net operating cost			24,585,811

11. Analysis of capital expenditure, financial investment and associated A in A

	2004-05			
	Capital expenditure	Loans, etc.	A in A	Net Total
	£000	£000	£000	£000
Request for resources 1	9,673	2,475,370	(434,967)	2,050,076
Request for resources 2				–
Request for resources 3				–
Total	9,673	2,475,370	(434,967)	2,050,076
Non A in A income from disposal of fixed assets.				(1)
				<u>2,050,075</u>
	2003-04			
	Capital expenditure	Loans, etc.	A in A	Net Total
	£000	£000	£000	£000
Request for resources 1	12,506	2,401,785	(364,233)	2,050,058
Request for resources 2				–
Request for resources 3				–
Total	12,506	2,401,785	(364,233)	2,050,058
Non A in A income from disposal of fixed assets.				(2)
				<u>2,050,056</u>

Notes to the departmental resource accounts *(continued)*

12. Tangible fixed assets

	Land & Buildings	Plant & Machinery	Information Technology	Transport Equipment	Furniture & Fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2004	57,579	311	29,929	654	15,628	104,101
Additions	–	77	7,063	202	950	8,292
Disposals	–	–	(5,169)	(303)	(1,095)	(6,567)
Revaluations	5,419	2	(245)	30	559	5,765
At 31 March 2005	62,998	390	31,578	583	16,042	111,591
Depreciation						
At 1 April 2004	4,274	205	13,068	246	5,815	23,608
Provided in year	1,409	23	4,975	70	2,204	8,681
Disposals	–	–	(5,167)	(202)	(1,095)	(6,464)
Revaluations	398	1	352	18	126	895
At 31 March 2005	6,081	229	13,228	132	7,050	26,720
Net book value at 31 March 2005	56,917	161	18,350	451	8,992	84,871
Net book value at 31 March 2004	53,305	106	16,861	408	9,813	80,493
Asset financing:						
Owned	56,917	161	18,350	451	8,992	84,871
Net book value at 31 March 2005	56,917	161	18,350	451	8,992	84,871

All properties on the balance sheet are freehold properties. The Department's surveyors, Donaldson's, revalue the land and buildings on an existing use basis in accordance with the RICS Appraisal and Valuation Manual. During the year no property was professionally revalued. Properties have been revalued using indices provided by HM Treasury 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. The properties will be revalued during 2005.

Included in the land and buildings net book value is £25.7 million for the National College of School Leadership. As this property is used by the NDPB, and is not used for the administration of the Department, the cost of capital and depreciation charges are classified as programme costs.

Notes to the departmental resource accounts *(continued)*

13. Intangible fixed assets

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

	Purchased software licences £000
Cost or valuation	
At 1 April 2004	3,094
Additions	1,381
Disposals	(4)
Revaluations	(163)
At 31 March 2005	4,308
Amortisation	
At 1 April 2004	1,677
Charged in year	774
Disposals	-
Revaluations	(98)
At 31 March 2005	2,353
Net book value at 31 March 2005	1,955
Net book value at 31 March 2004	1,417

14. Loans

	Students £000	Schedule 3 £000	Total £000
Balance at 1 April 2004	10,904,334	788	10,905,122
Amounts previously transferred to current assets 2003-04	560,465	34	560,499
Total loans outstanding at 1 April 2004	11,464,799	822	11,465,621
Student loans domicile adjustment	39		39
Repurchase of sold debt	437		437
New loans	2,474,933		2,474,933
Interest added	270,128		270,128
Admin charge applied	1,598		1,598
Repayments	(544,653)	(34)	(544,687)
Write offs	(2,566)		(2,566)
Repayment of Teachers' Loans	(21,394)		(21,394)
	13,643,321	788	13,644,109
Loans repayable in 12 months transferred to current assets	642,667	36	642,703
Balance at 31 March 2005	13,000,654	752	13,001,406

Student loans are part of the government's package of financial support to students embarking on a course of higher education to help students meet the cost of living. The Student Loans Company issues and administers the loans on behalf of DfES, the Student Awards Agency for Scotland and the Department for Employment and Learning Northern Ireland. The DfES accounts include only the balance of loans to students domiciled in England and Wales.

The figures above include non-cash repayment transactions relating to the pilot initiative called the Repayment of Teachers' Loans Scheme (RTL) which was set up in 2002-03 and will run until 2005-06. Under the terms of the scheme the Department meets the cost of repaying newly qualified teachers' student loans if they meet certain criteria e.g. they must be employed in specific shortage subjects. The Department has provided for bad debts and the interest subsidy costs (see Note 21).

The Schedule 3 loans (formally known as Section 105 loans) are loans issued to voluntary schools for capital projects under Schedule 3 of the Schools Standards & Framework Act 1998. At 31 March 2005 there were 5 outstanding loans (5 in 2003-04).

Notes to the departmental resource accounts *(continued)***15. Movements in working capital other than cash**

The movements in working capital used in the Reconciliation of resources to cash requirement comprise:

	2004-05	2003-04
	£000	£000
Increase/(decrease) in stocks	(1,204)	172
Increase/(decrease) in debtors	93,129	12,870
(Increase)/decrease in creditors falling due within one year	(145,182)	175,267
	(53,257)	188,309
Adjustment: movement in working capital not related to net operating costs		
Amounts due to / from the Consolidated Fund	(112,836)	(58,825)
Amounts receivable that will be due to the Consolidated Fund when received	(1,183)	(26,564)
CFER not yet received (Note 19)	(7,850)	(9,033)
CFER received	9,033	35,597
Movement in working capital other than cash (Schedule 1)	(166,093)	129,484

The movements in working capital other than cash used in the Cash Flow Statement comprise:

	2004-05	2003-04
	£000	£000
Increase/(decrease) in stocks	(1,204)	172
Increase/(decrease) in debtors	93,129	12,870
(Increase)/decrease in creditors falling due within one year	(145,182)	175,267
	(53,257)	188,309
Adjustment: movement in working capital not related to net operating costs		
Amounts due to the Consolidated Fund	(112,836)	(58,825)
Amounts receivable that will be due to the Consolidated Fund when received	(1,183)	(26,564)
Adjustment for movement in MOGC debtors	8,394	(8,394)
Non operating student loan interest adjustment	53	267
Movement in working capital other than cash (Schedule 4)	(158,829)	94,793

16. Stocks

	2004-05	2003-04
	£000	£000
Stocks	-	1,204
	-	1,204

The Connexions Service publishes a catalogue of free and priced publications for use by Careers Services, schools and colleges. Priced publications were removed from the portfolio during 2004-05, therefore the closing stock balance is nil.

Notes to the departmental resource accounts *(continued)***17. Debtors**

	2004-05	2003-04
	£000	£000
Amounts falling due within one year:		
VAT	17,105	34,836
Trade debtors	26,866	53,782
Deposits and advances	1,956	2,011
Other debtors	3,873	2,294
Prepayments and accrued income	198,676	108,556
MOGC debtors	–	8,394
Amounts due from the Consolidated Fund for Supply but undrawn at year end	57,579	–
	306,055	209,873
Amounts falling due after more than 1 year:		
Prepayment of early departure pre-funding	2,465	5,518
	308,520	215,391

Included within current assets is £7,850,000 (2003-04: £9,033,000) that will be due to the Consolidated Fund once the debts are collected.

18. Cash at bank and in hand

	2004-05	2003-04
	£000	£000
Balance at 1 April	74,398	133,223
Net change in cash balances:	(112,836)	(58,825)
Balance at 31 March	(38,438)	74,398
The following balances at 31 March are held at:		
Office of HM Paymaster General	(38,442)	74,350
Commercial banks and cash in hand	4	48
Balance at 31 March	(38,438)	74,398
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	–	61,579
Amounts due from the Consolidated Fund for Supply but undrawn at year end	(57,579)	–
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	19,141	12,819
	(38,438)	74,398

19. Creditors

	2004-05	2003-04
	£000	£000
Amounts falling due within one year:		
Other taxation and social security	3,996	65
Trade creditors	428,896	351,921
Other creditors	1,956	–
Accruals and deferred income	123,006	4,246
Consolidated Fund receipts not yet paid over	19,141	12,819
Amounts issued from the Consolidated Fund for Supply but not spent at year end	–	61,579
Consolidated Fund income not yet received	7,850	9,033
	584,845	439,663

Notes to the departmental resource accounts *(continued)*

20. Provisions for liabilities and charges

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

Early departure costs

The Department meets the additional costs of benefits beyond normal PCSPS benefits in respect of employees who retire early, and compensation payments payable to employees who take early severance. 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 cost of capital rate of 3.5% in real terms. Of the amount provided in earlier years, £9.444 million was paid to ex-employees in monthly pensions payments during 2004-05.

There are additional discounted early departure costs of £3.3m 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 Department increases the provision based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions.

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

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

TEC Property Provision

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 of the last property in 2017.

Notes to the departmental resource accounts *(continued)**Partnerships for Schools*

Partnerships for Schools (PfS) is an NDPB which operates under a joint venture agreement between the Department and Partnerships UK to deliver the Building Schools for the Future programme. The related provision covers amounts payable to Partnerships UK on achieving agreed targets.

Centre for British Teachers Pensions

The DfES had a contract with Centre for British Teachers (CfBT) for the delivery of the National Literacy, National Numeracy and Key Stage 3 Strategies. Under the terms of the contract CfBT were obliged to use the London Pensions Fund Authority to a pension service for staff employed by CfBT. The triennial revaluation of the local government pensions contributions to the fund identified an actuarial shortfall in the pension fund in relation to the CfBT field force staff. Subsequently the Strategies contract underwent a re-tendering exercise and CfBT was not awarded the new contract. The staff were transferred under TUPE to the new contractor on 1 April 2005, and the Department accepted liability to meet the pension deficit. The deficit is a short term liability and will be fully paid by the end of 2005-06.

21. Reconciliation of net operating cost to changes in general fund

	<u>2004-05</u>		<u>2003-04</u>	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(26,633,933)		(24,585,811)	
Income not appropriated in aid payable to Consolidated Fund	(110,788)		(121,623)	
		(26,744,721)		(24,707,434)
Parliamentary funding				
Drawn Down	27,903,025		26,075,021	
Deemed Supply	61,579		42,621	
Transfer from DoH, HO and DCA	–		763,197	
Non-operating A in A transfer from DoH	–		171	
		27,964,604		26,881,010
Non-cash charges:				
Cost of capital	313,249		251,003	
Auditor's remuneration	300		300	
Student loan interest subsidy inflation adjustment	218,572		231,837	
Transferred to general fund of realised element of revaluation reserve (Note 22)	248		141	
Assets sold as CFER	(1)		(2)	
Amounts issued from the Consolidated Fund for Supply but not spent at year end	–		(61,579)	
Amounts due from the Consolidated Fund for Supply but undrawn at year end	57,579		–	
		589,947		421,700
Net increase in general fund		1,809,830		2,595,276
General fund at 1 April		7,888,246		5,292,970
General fund at 31 March (Schedule 3)		9,698,076		7,888,246

Notes to the departmental resource accounts *(continued)*

22. Revaluation reserve

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Balance at 1 April	186	3,677
Arising on revaluation during the year (net)	5,534	(3,350)
Transferred to the general fund in respect of realised element of revaluation reserve (Note 21)	(248)	(141)
Balance at 31 March	<u>5,472</u>	<u>186</u>

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

23. Notes to Schedule 5

Programme costs have been allocated to each objective using a mixture of direct allocation and apportionment where costs cover more than one objective, for example, schools expenditure has been allocated using either teacher statistics for workforce related costs, or pupil numbers for other school funding expenditure.

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

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Objective 1	4,701,474	4,477,059
Objective 2	11,636,610	10,925,628
Objective 3	10,037,225	8,945,779
Total	<u>26,375,309</u>	<u>24,348,466</u>

Capital Employed by Departmental Objective

With the exception of the Sure Start computer system (which is used solely for Objective 1), the National College of School Leadership property and loans to schools (Objective 1 and 2) and student loans (which support Objective 3), the Department's capital is almost exclusively employed for administration of the Department. The capital employed has therefore been allocated to objectives in proportion to either gross administration costs, or if more appropriate gross programme costs, except for the capital employed of the above mentioned items that have been directly allocated. As student loans account for 98.7% of the gross assets, the majority of the capital employed is allocated to Objective 3.

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Objective 1	(49,224)	(42,890)
Objective 2	(121,820)	(56,401)
Objective 3	9,874,592	7,987,723
Total	<u>9,703,548</u>	<u>7,888,432</u>

Notes to the departmental resource accounts *(continued)*

24. Capital commitments

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Contracted and approved commitments at 31 March 2005 for which no provision has been made	<u>2,694</u>	<u>2,231</u>

25. Commitments under leases

Commitments under operating leases to pay rentals, service charges and rates 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. These commitments include costs that will be charged to administrative costs (as disclosed in note 3) and programme expenditure.

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Obligations under operating leases comprise:		
Land and buildings		
Expiry within 1 year	484	200
Expiry after 1 year but not more than 5 years	1,063	1,485
Expiry thereafter	<u>26,928</u>	<u>27,748</u>
	<u>28,475</u>	<u>29,433</u>
Other		
Expiry within 1 year	169	140
Expiry after 1 year but not more than 5 years	114	270
Expiry thereafter	<u>-</u>	<u>-</u>
	<u>283</u>	<u>410</u>

26. Contingent Liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability

Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities, or by giving letters of comfort. None of these is a contingent liability under the meaning of FRS12 since the likelihood of a transfer of economic benefit in settlement is too remote.

Notes to the departmental resource accounts *(continued)*

26. Contingent Liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability *(continued)*

	1 April 2004	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2005	Amount reported to Parliament by Departmental Minute
	£000	£000	£000	£000	£000	£000
Indemnities						
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:	59,000				59,000	
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.						
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;	128,204			38,039	90,165	

Notes to the departmental resource accounts *(continued)*

26. Contingent Liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability *(continued)*

	1 April 2004	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2005	Amount reported to Parliament by Departmental Minute
	£000	£000	£000	£000	£000	£000
- 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;	5,220			4,080	1,140	
- 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.	7,570			420	7,150	
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.	3,587	1,274			4,861	
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.	63,790			27,987	35,803	

Notes to the departmental resource accounts *(continued)*

26. Contingent Liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability *(continued)*

	1 April 2004	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2005	Amount reported to Parliament by Departmental Minute
	£000	£000	£000	£000	£000	£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 an unknown body with no financial history.	5,180	34		426	4,788	
Arrangements to allow the appointment of a receiver to manage the affairs of Merseyside Training and Enterprise Council (MTEC).	2,000				2,000	
Contract with CfBT for the provision of services relating to the government's drive to raise standards through primary and Key Stage 3 Strategies.	560			560	-	
Arrangement to allow the appointment of a receiver at any TEC we believe necessary.	6,000				6,000	

27. Related party transactions

The DfES makes grants to the following executive non-departmental public bodies:

- Adult Learning Inspectorate (ALI)
- British Educational Communications and Technology Agency (BECTA)
- Children and Family Court Advisory and Support Service (CAFCASS)
- Construction Industry Training Board (CITB)
- 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 of School Leadership (NCSL)
- Office for Fair Access (OFFA)
- Partnerships for Schools (Pfs)
- Qualifications and Curriculum Authority (QCA)
- Sector Skills Development Agency (SSDA)
- Student Loans Company Ltd (SLC)
- Teacher Training Agency (TTA)

Notes to the departmental resource accounts *(continued)*

27. Related party transactions *(continued)*

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 the 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.

28. Losses, special payments and share acquisition

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

	No. of cases	£000
Cash losses	178	13,636
Losses of accountable stores	37	866
Fruitless payments and constructive losses	228	56
Claims waived or abandoned	5	8
Total	448	14,566

Details of cases over £100,000

- Included in cash losses are a total of 135 cases relating to improper activities by ILA providers totalling £13,608,057 where the provider organisation has either been dissolved or gone into liquidation;
- A review of stock levels by the Department highlighted that there was a large volume of free publications held in stock by the Department's distribution contractor. Excess publicity materials with an estimated value of £525,000 have been destroyed and written off above as part of losses of accountable stores. These publications are not connected with the priced publications held in stock on the balance sheet.

Special payments

Total	66	351
Total losses and special payments	514	14,917

Other notes

Loans remitted (written off) in year

Loans totalling £3,021,000 issued by the Student Loans Company were remitted during the year mainly due to 507 deaths (£1,764,000), 592 borrowers reaching an age when their loans are cancelled (£960,000) and 103 disabled borrowers (£304,000). Of this total £2,566,000 is attributable to funds provided from Estimate Line R. See note 14 for further information on student loans. The remainder is attributed to the separate Estimates for the Student Awards Agency for Scotland (£372,000) and the Department for Employment and Learning Northern Ireland (£83,000).

Acquisition of Shares

The Department held the following shares during the financial year:

	£
Shared held at 1 April 2004	5
In Year – PFS	1
Total Shares held at 31 March 2005	6

The closing balance of shares held by the Department comprises 5 ordinary shares of £1 in the Student Loan Company Limited and 1 ordinary share of £1 in the Partnerships for Schools. Further information on the Student Loan Company and Partnerships for Schools is available in their separately published accounts.

Notes to the departmental resource accounts *(continued)*

29. 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, as well its capital expenditure. DfES is therefore not exposed to any 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 0.02% of total gross expenditure and therefore is not significant.

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 2005.

	<u>Book value</u>	<u>Fair value</u>	<u>Basis of fair valuation</u>
	£000	£000	
Primary financial instruments:			
Financial assets			
Cash at bank	(38,438)	(38,438)	
Student loans	13,643,321	13,643,321	note a
Loans to voluntary aided schools	788	788	note b
Financial liabilities			
Provisions	(3,712,624)	(3,712,624)	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 3.5% in real terms.

30. Entities within the Departmental boundary

The entities within the boundary during 2004-05 are the main Department, including the Sure Start Unit and the Children and Young People's Unit. The expenditure for these units is included in these accounts and disclosed separately under requests for resources 2 and 3. They do not publish separate accounts.

Notes to the departmental resource accounts *(continued)*

31. Dispersal of TEC reserves

During the year the Department has continued to work with our partners to dispose of the TEC reserves and the outstanding balance has reduced from £3.5 million to £1.7 million. The cumulative balances, in-year dispersals from TEC Reserves and the amount still to be repaid to DfES are as follows:

	Liquid attributable reserves	Attributable fixed assets	Non- attributable liquid reserves	Non- attributable fixed assets	Total
	£000	£000	£000	£000	£000
ILA Commitments repaid to the Department	123,873	-	-	-	123,873
Legacy payments to national and local LSC offices	76,683	5,389	1,502	-	83,574
TEC contribution to national transition costs	40,762	-	-	-	40,762
Assets transferred to continuing entities	3,033	3,589	8,633	10,679	25,934
Assets transferred to Business Links	5,831	997	7,456	1,472	15,756
Assets transferred to Chamber of Commerce	863	534	3,834	578	5,809
Other	12,216	1,335	2,025	120	15,696
Reserves distributed - cumulative total	263,261	11,844	23,450	12,849	311,404
Outstanding reserves					
Attributable funds held by liquidators	1,487	-	-	-	1,487
Attributable funds held by continuing TECs	250	-	-	-	250
Reserves to be repaid as at 31 March 2005	1,737	-	-	-	1,737
Total TEC reserves	264,998	11,844	23,450	12,849	313,141

Note – 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

32. Intra-government balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	145,490	2,465	(71,219)	-
Balances with local authorities	119,829	-	(245,345)	-
Balances with NHS Trusts	-	-	(5,475)	-
Balances with public corporations and trading funds	-	-	(8)	-
Balances with bodies external to government	40,736	-	(262,798)	-
At 31 March 2005	306,055	2,465	(584,845)	-

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