Presented pursuant to the GRA Act 2000 c.20. s.6

Department for Education and Skills

Resource Accounts 2003-04

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(For the year ended 31 March 2004)

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Contents

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), Sure Start (Request for resources 2) and Children's Fund (Request for resources 3).

2. Bodies outside the Departmental Accounting Boundary

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

Executive Non Departmental Public Bodies (NDPBs)
Adult Learning Inspectorate (ALI)
British Educational Communications Technology Agency (BECTA)
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 for School Leadership (NCSL)
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 (LEA's).

3. Departmental reporting cycle

3.1 In April 2004 the Department published the Departmental Report, a comprehensive review of the Department for Education and Skills (DfES) and the Office for Standards in Education (OFSTED). It gives detailed information on the Department's activities in the 2003-04 financial year and the following financial information:

- Outturn for 2002-03;
- Estimated outturn 2003-04; and
- Expenditure plans for 2004-05 and 2005-06.

4. Operating and Financial Review

4.1 The following paragraphs are a summary of the operating and financial performance during the financial year and investment strategy for the future. Further information is available in the Departmental Annual Report (Command paper no 6202 issued April 2004), *Education and Skills: Delivering Results; a strategy to 2006* (revised December 2002), the *Autumn Performance Report* (Command Paper No 6006 issued November 2003), the *Five Year Strategy for Children and Learners* and the *Departmental Investment Strategy 2003-06*. 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 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 Our objectives are 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; and
- Objective 3 – encourage and enable adults to learn, improve their skills and enrich their lives.

5.4 To achieve these objectives, the Department has in place a wide-ranging policy programme and Public Service Agreement (PSA) targets against which to measure progress and achievement. The Departmental Annual Report contains information on the performance against the PSA targets, and additionally a separate report is published in the autumn which provides a further update.

5.5 Further information on gross and net outturn by objective for both the current and prior financial year is available on Schedule 5 (page 27).

6. Principal Activities

6.1 The Department's key policies and principal activities in pursuance of its objectives during 2003-04 were:

- A Sure Start for Every Child: To ensure all children get a sure start in life and to help secure a better future for families, and stronger and safer communities. The Government is committed to improving access to good quality childcare, early learning and the progress already made in primary education. The Sure Start units deliver a wide range of early years, health and family services in the neediest communities. The Sure Start network of 524 Local Programmes was completed in December 2003.

- Supporting Children, Young People and Families: Achieving better outcomes for children, young people and families means involving them in the design and delivery of the service they receive. A good start to this process has been made through our consultation on the Children's Green Paper *Every Child Matters* which was published in September 2003. Following this consultation, the Department introduced the Children Bill in March 2004. This bill will put in place the legislative framework for the reform of children's services.
- A Strategy for Primary Schools: *Excellence and Enjoyment* launched in May 2003 outlines the vision for the primary sector where all schools can achieve high standards by continuing to place literacy and numeracy skills at the heart of the Strategy within a broad and rich curriculum in which every subject is taught outstandingly well.
- Transforming Secondary Education: The 2003 Key Stage 3 national test results were the best on record with increases in every subject and at all levels. This progress has been helped by policies such as Excellence in Cities and Specialist Schools. The key priority is to build on these improvements by raising standards even further in 2004.
- Transforming the school workforce, and in particular freeing teachers to focus on their core professional role: *Raising Standards* and *Tackling Workload*, the National Agreement on School Workforce Reform was signed by local authority employers, and support staff, teacher and headteacher unions in January 2003. During the last financial year the department worked closely with National Remodelling Team (as part of the National College for School Leadership) and the Implementation Review Unit to implement the reforms. The National Remodelling Team works with LEAs to deliver training, guidance and support to make workforce reform a reality in Schools. The Implementation Review Unit is an independent policy scrutiny unit which assesses the impact of initiatives in schools with the aim of cutting red tape and reducing bureaucracy.
- Developing a flexible and challenging 14 – 19 phase of education: In January 2003 the Department published *14 – 19: Opportunity and Excellence.* During the 2003-04 financial year the Department has been working with partners in the LSC, QCA and OFSTED to implement the changes to the curriculum for this age group which will result in greater choice and flexibility in the Key Stage 4 curriculum from September 2004. These changes include pupils having individual learning plans which will include work and enterprise; new entitlements to study a range of subjects and reducing the compulsory elements; discarding the distinction between academic and vocational GCSE's and A levels; and making high quality vocational options available to all students.
- Reforming further education and training: *The Success for All Strategy* was announced in November 2002. This strategy aims to raise the quality and participation on Post-16 learning. The Department has been working with colleges and work based learning providers to meet targets for minimum performance and value for money. A key part of the strategy is the investment in specialist vocational training provision by awarding Centres of Vocational Excellences (CoVEs) status to 400 learning providers by March 2006. By the end of 2003-04 there were 251 CoVEs in the programme. Another important development this year has been changes to the eligibility rules for entrance to the Modern Apprenticeships so that barriers to learning are removed for young people.
- Strengthening and supporting excellence in higher education, and improving access and participation: The White Paper, the *Future of Higher Education* (published in January 2003) set out the Government's strategy for investment and reform in higher education. The aim of the policy is to create a sustainable system of Higher Education capable of remaining world class and helping the nation to deal with increasingly rapid global change. In conjunction with HEFCE, the Department has been developing a programme for change. Some of these changes require legislative change, so a key activity for the Department has been the publication of the Higher Education Bill which was laid before Parliament in January 2004 (and which received Royal Assent in July 2004).
- Developing the skills of the workforce – particularly the basic skills of adults: In July 2003 the Department launched the Skills Strategy White Paper *21st Century Skills: Releasing our Potential* which sets out the Government's programme to tackle the skills gap between the UK and it main economic competitors. The strategy also encompasses the social benefits accruing from increased skill levels, particularly adult basic skills and skills for employability. As part of the Strategy, the Department is

spearheading a campaign to improve the literacy and numeracy skills of 750,000 adults by 2004 and 1.5 million adults by 2007 and reforming qualifications. Implementation of the Strategy is being overseen by the Skills Alliance, a new social partnership for Skills which brings together the Confederation of British Industry, the Trades Union Congress and the Small Businesses Council.

6.2 The success in meeting the department's aims and objectives depends on working with children, young people, adult learners, teachers, employers, unions and a wide range of partners, particularly the Local Education Authorities, unions and the Non Departmental Public Bodies listed in paragraph 2.1.

6.3 Further information on the Departmental performance in achieving its aims and objectives is available in the *Autumn Performance Report*. This reports progress against the Spending Review 2002 Public Service Agreement targets.

7. Features of the operating and financial performance for the year

Internal and external influences on performance

7.1 Although education and childcare are improving, we have not broken the link between social class and achievement and we still face major challenges at each key stage in life. These social and educational challenges influence the development of the Department's policies and allocation of resources during the past year and in the future:

- Under 5's – disadvantage starts early in life and children who get a poor start tend to fall further behind as they go through the education system. Despite investment in extra nursery and childcare places, we are still not providing enough childcare places in a flexible way that meets parent needs. The Treasury's paper *Review of Child Poverty*, which reports progress on tackling child poverty across Government, also impacts on Departmental policy for this age group.
- School age years – there are still too few excellent secondary schools for parents and pupils. While standards have risen, they are not high enough for all. Parents and teachers worry about truancy and bad behaviour.
- 14-19 year olds – too many pupils drift, become disenchanted with school or get into trouble and drop out at sixteen. Vocational learning is still perceived as second best by some people, and pupils leave school insufficiently prepared for the world of work.
- The world of work – the UK lags behind other countries in terms of output and skills. A large number of adults lack vital skills in literacy and numeracy, and too often the training system does not give employers the sort of courses and qualifications that suit their businesses.

7.2 *The Five Year Strategy for Children and Learners* (published in July 2004) outlines how the Department will concentrate resources on reforming services and so that the country is prepared to meet these challenges and secure world class standards for the majority of our citizens.

7.3 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.

7.4 During the period covered by the Spending Review:

- Total spending on education in England will be £12 billion higher in 2007-2008 than in 2004-05, and will rise annually in real terms by 6 per cent 3.6 per cent and 3.7per 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 will rise from 5.3 per cent of Gross Domestic Product (GDP) in 2003-2004 to 5.6 per cent in 2007-2008.
- 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 £7 billion a year in 2007-08, of which £1.3 billion will be through the Private Finance Initiative (PFI).

7.5 Other factors affecting the Department are the Government wide Efficiency Review and the Lyons Review of public sector relocation. As part of the Spending Review settlement the Department has committed to make annual efficiency gains of at least £4.3 billion by 2007-08. The Department has identified significant opportunities for efficiency savings in the Department itself, NDPBs and the wider education system, for example through workforce reform and better procurement. A key part of the strategy to reduce costs in DfES is a commitment to reduce the number of civil service posts in the Department by 1,460 by 2008. In a separate, but related, exercise in response to the Lyons Review, the Department has committed to relocate around 800 posts in the Department and its partner organisations out of London and the South East by 2010.

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 11, which reports outturn in the same format as the Supply Estimate. Expenditure on all Requests for Resource has increased as a result of increased programme expenditure and the net resource outturn is 2.2% lower than the resource limit in the Supply Estimate. The full analysis of expenditure by Estimate Line is provided in Note 11 on pages 47-48. The tables below contain information on the Estimate Lines where the variance is greater than 5% of the budget.

Request for Resource 1 – Core Department

Estimate Line	Limit	Outturn	Variance	Explanation of Variance
	£000	£000	£000	
A - Support for Schools and Teachers not paid through LEAs	797,387	699,871	97,516	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 A Standards Fund budget.
B - Capital Modernisation Fund supporting all Functions	49,649	27,344	22,305	CMF project experienced some slippage in planned delivery activity during 2003-04, the most significant of these was the cybrarian Project, this slippage led to lower than anticipated expenditure. The slipped activity will now be undertaken in future years and corresponding resources will be carried forward to fund these activities. Another factor causing the variance was that a larger proportion of CMF funding was paid out through LEAs (Estimate Line L) than anticipated in the Supply Estimate, resulting in a balancing overspend in Estimate Line L.
D - Higher Education	140,714	125,790	14,924	The primary cause of the variance is the poor take up of part time student loans. These have now been abolished and a new part time package introduced to increase participation.
E - Further Education, Adult Learning and Lifelong Learning	398,928	314,516	84,412	Activity on these programmes was cut back so that resources could be diverted to other priority activities as part of the skills strategy initiative in future years.
F - Support for Students in Higher Education	1,465,103	1,249,456	215,647	The underspend occurred because the change in the Treasury cost of capital rate, from 6% to 3.5%, reduced the outturn without a proportionate reduction in the Estimate.

Estimate Line	Limit	Outturn	Variance	Explanation of Variance
	£000	£000	£000	
I – Grants for LEAs to Support schools and Teachers	3,119,654	3,217,647	(97,993)	Programmes were delivered via LEAs rather than being paid directly to Schools from the Estimate Line A. This led to the comparable overspend in Estimate Line A.
K - Higher Education Fees and Awards through LEAs	75,500	67,755	7,745	Annual allocations for LEAs are made by reference to previous years actual expenditure. Therefore it is sometimes necessary to take recovery action when actual expenditure is known. In 2003-04 this recovery action led to an overall lower level of expenditure than anticipated.
L - Capital Modernisation Fund through Local Authorities	60,490	71,098	(10,608)	Higher than expected levels of CMF grants were paid to LEAs rather than directly to schools in Estimate Line B. Leading to an overspend in Estimate Line L and adding to the underspend in Estimate Line B.
M - Education Maintenance Allowances not through LEAs	9,800	17,496	(7,696)	Take up of EMA's not through LEA's was higher than originally forecast. Virement action to meet this expenditure from Estimate Line N did not take place leading to an overspend on this Estimate Line.
N - Education Maintenance Allowances through LEAs	208,200	124,015	84,185	EMAs through LEAs are demand led, and as such expenditure is anticipated using various assumptions, take up in 2003-04 was lower than anticipated. In addition to this a virement from this Estimate Line to Estimate Line M did not take place increasing the underspend in this Estimate Line.
P - Grant in Aid to NDPBs supporting Young people and Families	192,189	179,156	13,033	The advent of QCA modernisation work has meant that QCA needed to reprioritise its resources. This coupled with a number of timing adjustments of key areas of work - modernisation, key skills stage 1, basic skills and the workforce development investment initiative meant that QCA did not require the full cash Grant in Aid budget, resulting in an underspend on this Estimate Line.
W - Capital Grants to LAs to support children and families	6,178	1,119	5,059	The underspend occurred because decisions about major building work have been delayed pending the outcome of the Youth Justice Board's review.
X - Support for Students in Higher Education	(259,638)	(244,053)	(15,585)	The Department and DTI re-negotiated the level of DTI's contribution to Higher Education Innovations Fund when it was too late to amend the budget in the Supplementary Estimate. This led to a shortfall in appropriations in aid and a balancing underspend on the corresponding resource expenditure budget.

Request for Resource 2 – Sure Start

Estimate Line	Limit	Outturn	Variance	Explanation of Variance
	£000	£000	£000	
A - Sure Start Administration Costs and Current Grants	469,130	424,612	44,518	The variance is a result of planned movements of budgets to Local Authorities that were not reflected in the Estimate.
B – Current Grants to Local Authorities	226,798	253,518	(26,720)	More grants were issued to Local Authorities than was planned in the Estimate, resulting in a balancing underspend in Estimate Line A.
C – Capital grants to Local Authorities	29,511	40,548	(11,037)	More grants were issued to Local Authorities than was planned in the Estimate, resulting in a balancing underspend in Estimate Line A.

Request for Resource 3 - The Children's Fund

Estimate Line	Limit	Outturn	Variance	Explanation of Variance
	£000	£000	£000	
A – The Children's Fund	285,476	264,138	21,338	Partners have been delayed in their planned activity. We are reviewing individual reasons for delays but expect that in most cases the activity has slipped into 2004-05, and will still go ahead.

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 £1.6 billion from £23 billion to £24.6 billion as a result of a corresponding increase in Net Programme Costs. A variety of programmes have contributed to the increased Net Programme Costs, but the largest increases are the £0.6 billion increase in grants paid to Local Authorities; £1 billion increase in Grant in Aid to the LSC; and the £628 million increase in Sure Start and Children's Fund activities. Although the gross expenditure on administration costs has risen by £3 million since 2002-03, it has fallen as a percentage of the gross expenditure by the Department.

7.8 The most significant item on Schedule 3, the Department's balance sheet is Student Loans. Student loans comprise 97% of departmental assets which has a significant impact on the Department's balance sheet. The net assets on the balance sheet have increased by £2.6 billion as a result of the increase in the upward trend of the number students in Higher Education. The assets and liabilities not related to student loans have remained relatively stable. The Net Asset value is higher than forecast in the Departmental Annual Report because the impact of the change in the cost of capital rate from 6% to 3.5% has resulted in a smaller than anticipated balance on provisions.

7.9 Schedule 4, the cash flow statement, analyses the cash flows utilised by the Department. It shows that the net cash outflow on both operating and investing activities was £26.7 billion. The Consolidated Fund contributed £26 billion towards this total, with the remainder primarily attributable to the cash receipts from the Department of Health, Home Office and the Department for Constitutional Affairs for the Machinery of Government transfers. The Schedule also shows that non cash transactions have decreased from £1.6 billion in 2002-03 to £0.5 billion in 2003-04. This is due to £696 million credit adjustment to the Operating Costs Statement relating to the change in the HM Treasury cost of capital rate, which is used to discount the provisions.

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 2003-04. 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
(i) Gross admin costs as a % of total gross spend	1.7%	1.2%	1.1%	1.0%
(ii) Staff costs as a % of gross admin costs	54%	56%	61%	64%
(iii) Purchase of new assets used by the department in year	£10,858,000	£10,552,000	£13,129,000	£12,506,000
(iv) Rate of replacement of departmental assets in use	8 years	7 years	6.6 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
(vi) Repayment of Student loans as a % of opening balance of loans	5%	5%	4.6%	4.5%

Explanation of trends

7.12 Although the gross amount spent on administration has increased, it continues to fall as a percentage of the gross expenditure of the Department. All Requests for Resource have spent below the administration cost limits.

7.13 Staff costs are becoming a higher percentage of the departmental administration costs because expenditure on non staff related costs have fallen by £5.8 million during 2003-04. This fall is due to lower charge for permanent diminution in fixed asset values and a reduction in the cost of capital charges on property and other assets (resulting from the change in the Treasury rate from 6% to 3.5%).

7.14 The Department has continued its asset replacement policy, with the majority of new purchases (£8.9 million) being Information and Communication Technology (ICT) equipment.

7.15 The Department's single biggest investment is student loans. The value of loans issued to students in England and Wales has increased by £109.6 million, 4.8% higher than in 2002-03. This growth reflects the growing number of students participating in Higher Education.

7.16 Repayments of student loans have increased in value from £332 million in 2002-03 to £421 million in 2003-04. Included in the total repayments is £58.7 million of interest that is repaid to the Consolidated Fund.

8. Investment in the Future

8.1 Capital investment supports all of the department's objectives, underpinning its strategic aims of creating opportunities for everyone to develop their learning and skills, releasing potential in people and achieving excellence. The current Departmental Investment Strategy, which covers the years 2003-04 to 2005-06, has a common purpose across all education and skill sectors. It aims to replace obsolete infrastructure and invest in properties and equipment that are suited to the demands of modern learning, economically efficient, and widely accessible. Full details on capital investment are available in the Departmental Investment Strategy, and listed below are some examples of current and planned expenditure.

Sure Start including Early Years Education and Childcare

8.2 The existing investment in the Sure Start programme has been focused on:

- Setting up the network of 524 Sure Start local centres;

- Building the network of good practice in the delivery of integrated early years services via the Early Excellence Centre programme;
- Expanding day care in disadvantaged areas. There are now 1,073 Neighbourhood Nurseries open, providing over 36,000 places.

The 2002 Spending Review settlement more than doubled childcare expenditure by 2006 compared to earlier years. In the 2004 Spending Review the Department has secured additional £669 million funding for a further expansion in the number of Sure Start Children Centres. By 2008 there will be 2,500 centres which will support 100,000 childcare places. Many of these places will be in primary schools, with a particular focus on disadvantaged areas.

Schools

8.3 Schools now receive direct capital funding to meet their needs as well as the funding that is allocated to LEAs. Overall, direct capital funding for investment in school buildings, including PFI credits, was £3.8 billion in 2003-04, which will rise to £4.5 billion in 2004-05 and over £5 billion in 2005-06. From 2004-05 schools will be able to use this money for investment in ICT equipment as well as buildings.

The focus of current projects and future investment strategies are summarised below:

- In July 2003, after wide consultation, the new Building Schools for the Future programme was launched to bring all secondary schools in England up to 21st Century standards in a ten to fifteen year period from 2005-06, subject to future spending decisions. This programme will reform the way capital funding is allocated, the design of schools and the procurement of school buildings. In February 2004, £2.2 billion of funding was allocated to the first wave of 19 authorities;
- By September 2003 there were 12 Academy schools open with a further 33 in development. There will be further investment in the Academies programme, with all schools being able to become a specialist school and 200 Academies either open or in the pipeline by 2010;
- Investment in ICT has improved computer to pupil ratios to 1:7.9 in primary schools and 1:5.4 in secondary schools by April 2003. Since April 2002, over 90 per cent of schools have been connected to the internet, of which 49 per cent were connected at broadband speeds by December 2003;
- In December 2003 we significantly enhanced the functionality of Curriculum Online. This makes it easier and quicker for teachers to source multi media-resources.

Supporting Young People, Further Education and Wider Post 16 Learning

8.4 Investment in the Further Education (FE) estate and in improved ICT infrastructure has attracted more students and increased college credibility with employers. Capital investment in the Post 16 learning and skills sector will rise to over £400 million by 2005-06, with priority given to rationalise and modernise the FE estate. The engagement of employers is crucial to the FE sector and to assist in this process 400 Centres of Vocational Excellence (CoVEs) will be established by 2005-06. The CoVEs will focus on enhancing the employability of new entrants, on developing the skills of those in work and on enhancing the employment prospects of those seeking work.

8.5 Investment in the Higher Education (HE) estate plays an important role in encouraging young people into HE and reducing non-completion rates. A modern estate and ICT infrastructure will be needed if we are to increase participation in HE towards 50 per cent of 18 – 30 year olds by 2010. The investment in Universities infrastructure through the Science Research Investment Fund will increase to £500 million a year by 2004-05, of which £200 million will be from DfES, and will ensure the long-term sustainability of our research base. We will also work with key partners to ensure the full implementation of Full Economic Costing in universities in order that they can recover the full cost of the research activities.

8.6 Alongside the Spending Review White Paper, the Treasury published the *Ten Year Investment Framework for Science and Innovation* in July 2004. The framework aims to make Britain one of the most competitive locations for science, research and development and for innovation. The Department will work with other departments to support the UK science base, in particular by its commitments to ensue the supply of the best science and engineering graduates and investment in research.

<u>Administrative Capital</u>

8.7 Investment in the Department's own administrative assets contributes to the efficient operation of the Department and supports all its objectives. It provides a physical environment and ICT infrastructure that enhances individuals' performance and encourage flexible and effective ways of working. The Department aims to be an exemplar to other employers, particularly in the use of technology. The utilisation of and investment in assets is continuously assessed and priorities are set to ensure the Department delivers effectively.

8.8 Assets are managed centrally and the provision of accommodation, furniture and ICT equipment is planned by Departmental strategies that are considered and endorsed by the Executive Committee. All ICT, construction and procurement projects are controlled using project management methodology and are subject to mandatory independent Gateway reviews.

8.9 The Department's non ICT assets have a net book value of £63.6 million and comprise nine core properties, furniture, office machinery and vehicles. Included in properties is the National College for School Leadership, which the Department funded for use by the NDPB. This single property accounts for £22.9 million of the £53.3 million total net book value of land and buildings.

8.10 The Department's policy is to replace ICT assets on a three year cycle. Spending on ICT is planned and monitored through the Departmental business planning process and a senior management group establishes the strategy and priorities for investment in ICT. The net book value of £16.9 million consists mainly of desk top facilities.

<u>Public-Private Partnerships / Private Finance Initiatives</u>

8.11 Public-Private Partnerships (PPP) and Private Finance Initiatives (PFI) have become well-established procurement methods for the construction and refurbishments of schools, colleges and universities.

8.12 There are 67 signed schools PFI deals to date with a total value of £1.8 billion of private sector investment, covering over 632 schools. Services have started in over 41 projects with more than 100 new or substantially refurbished schools open. In addition, 26 school projects have been approved by the Project Review Group and are in procurement. The total capital value for the building projects is over £1.8 billion and they involve more than 300 schools. A further 9 projects covering some 80 schools have been prioritised for support by the Department.

8.13 There are 14 signed projects in the FE sector and 12 in the HE sector. They include complete campus relocation, sport and leisure facilities for college and community use and the provision of state of the art ICT facilities.

<u>Capital Modernisation Fund</u>

8.14 The Capital Modernisation Fund (CMF) was a cross-Government fund which supported innovative capital projects. During 2003-04, the last year of CMF funding, the Department issued grants totalling £98.4 million (£91.8 million in 2002-03) to support various CMF projects. The Department is currently monitoring and evaluating a number of projects that are now coming to an end.

<u>Invest to Save</u>

8.15 HM Treasury's Invest to Save Budget funds innovative projects which bring together two or more bodies to deliver better public services. The Department and its external partners were awarded £458,000 from the Invest to Save Budget starting 2004-05 to fund the Stay Safe – Stay Put project, which aims to reduce the incidences of running away amongst young people in Warrington.

Research and development

8.16 The DfES undertakes 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 2003-04 the Department published 169 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.

8.17 The Operating Cost Statement includes £12.5 million expenditure on research projects during 2003-04 (£11.6 million 2002-03). 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

8.18 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; and
- where all staff have the opportunity for broad fulfilling careers.

8.19 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 outcome, 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 £2.5 million on course fees and expenses (but excludes salary costs) related to internal and external training during 2003-04.

8.20 The key internal training programmes have been in the following areas:

- Management and Leadership Programme - applies to people at all levels within the Department;
- Communicating Policy Programme - the aim of this programme is to help staff answer customer complaints and queries more effectively;
- Programme and Project Management - the Department has achieved accredited training provider status from the Association for Project Management;
- 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 2003-04 financial year:

Charles Clarke	Secretary of State
Margaret Hodge	Minister of State for Children, Young People and Families
David Miliband	Minister of State for School Standards
Alan Johnson	Minister of State for Lifelong Learning, Further and Higher Education
Catherine Ashton	Parliamentary Under Secretary of State for Extended and Inclusive Schools and DWP Minister for Sure Start
Ivan Lewis	Parliamentary Under Secretary of State for Young People and Adult Skills
Stephen Twigg	Parliamentary Under Secretary of State for Schools

9.2 As a result of the Machinery of Government Changes announced in June 2003, Margaret Hodge's ministerial responsibilities were expanded to include young people and families, in addition to responsibility for children.

10. Permanent Head of Department and the Management Board

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

David Normington	Permanent Secretary
Peter Housden	Director General, Schools Directorate
Peter Makeham	Director General, Finance and Analytical Services Directorate
Ruth Thompson	Acting Director General, Finance and Analytical Service Directorate (From 16 June 2003 to 30 November 2003)
Peter Shaw	Director General, Youth Directorate (To 6 October 2003)
Janice Shiner	Director General, Lifelong Learning Directorate
Susan Thomas	Director General, Corporate Services and Development Directorate
Tom Jeffery	Director General, Children, Young People, and Families Directorate (From 10 November 2003)
Michael Stevenson	Director, Strategy and Communication Directorate (From 9 June 2003)
Anne Jackson	Acting Director, Strategy and Communications Directorate (To 16 June 2003)

10.2 During the year the Department underwent a reorganisation to incorporate the new functions which transferred to DfES as a result the Machinery of Government Changes. During the transitional period, between June and November 2003 Peter Makeham led the interim Children and Families Directorate, which was created from the former Youth Directorate and teams from other directorates. During this period Ruth Thompson temporarily replaced Peter Makeham as Director General of Finance and Analytical Service Directorate. Children and Families Directorate was superseded by the Children, Young People, and Families Directorate in November 2003 when Tom Jeffrey was appointed Director General and Peter Makeham returned to Finance and Analytical Services Directorate.

10.3 In addition to the executive board member listed above, there are two non-executive board members; Tim Stevenson and Lin Homer.

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 3 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 2003-04, 95.5% of suppliers (95% in 2002-03) 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 2003-04 totalled £300,000 for audit services.

16.2 The National Audit Office also carries out Value for Money studies. During 2003-04 the following studies were undertaken:

- Early Years – Progress in Developing High Quality Childcare and Early Education Accessible to All;
- Connexions Service for all Young People; and
- Making a difference: Performance of Maintained Secondary Schools in England.

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.

David Normington Date: 29 October 2004
Accounting Officer for the Department for Education and Skills

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.

In addition HM Treasury has appointed an additional Accounting Officer to be accountable for that part of the Department's accounts relating to a specified request for resources and the associated assets, liabilities and cash flows. This appointment does not detract from the Head of Department's overall responsibilities as Accounting Officer for the Department's accounts.

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

Request for resources 1: Mr David Normington, Principal Accounting Officer and Permanent Head of the Department.

Request for resources 2: Ms Naomi Eisenstadt, Additional Accounting Officer: Director of Sure Start Unit.

Request for resources 3: Mr David Normington, Principal Accounting Officer and Permanent Head of the Department.

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*. Under the terms of the Accounting Officers' Memorandum, the relationship between the Department for Education and Skills' Principal and Additional Accounting Officer, together with their respective responsibilities is set out in *Government Accounting*.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. The Chief Executives of the NDPBs, which fall within the Departmental boundary, are responsible for the maintenance and operation of the system of internal control in their individual NDPBs, and have signed a statement relating to those systems which are reproduced in the accounts of the each body.

The 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 Board regularly reviews key high level risks and ensures they are effectively managed. Every quarter I discuss the key Departmental risks with the Secretary of State.

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 only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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 2004 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. Collectively we have developed and communicated the Department's risk management policy statement, including risk appetite.

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.

The risk and control framework

The Department's approach is to assign risks to those best placed to manage them. Therefore individual managers (risk owners) are responsible 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. 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 Department's risk appetite varies depending on the perceived importance of particular risks. Managers, with support at senior level, are expected to decide upon their appropriate risk tolerance in relation to their business objectives.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses, and ensure continuous improvement of the system is in place.

The Audit Committee supports the Accounting Officer by offering objective advice on issues concerning the risk, control and governance of the organisation. The Audit Committee is chaired by a non-executive director and all the Board, except the Accounting Officer, are members. A separate Risk Committee, chaired by a Director General, identifies key business risks for the Department and provides assurance to the Board and the Accounting Officer on Departmental risk management, alongside assurances provided by the Audit Committee with regard to strategic risk handling. The Department's internal auditors undertake an annual work programme to review risk control and governance, culminating in the 'Annual Assurance Report to the Accounting Officer' produced by the Head of Internal Audit (HIA).

There have been weaknesses of financial control identified in the Children, Young People and Families Directorate resulting from the Machinery of Government changes. Although these weaknesses have not resulted in any material financial errors, measures have been put in place to address these issues and further work is planned in the coming year to improve the management of risk. Controls over contract management have been identified by one NDPB as an area for improvement and these are being addressed by the organisation concerned.

David Normington

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 22 to 66 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 28 to 31.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 17, 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 18 to 19 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 of Education and Skills at 31 March 2004 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

9 December 2004

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

SCHEDULE 1

Summary of Resource Outturn 2003-04 (£000s)

	2003-04							2002-03 Restated
	Estimate			Outturn				
	Gross Expenditure	A in A	NET TOTAL	Gross Expenditure	A in A	NET TOTAL	Net Total Outturn compared with Estimate saving/ (excess)	Prior Year Outturn
Request for resources 1 (notes 11 and 34)	24,449,154	(1,049,536)	23,399,618	23,938,161	(1,035,690)	22,902,471	497,147	22,172,364
Request for resources 2 (notes 11 and 34)	728,939	(3,500)	725,439	722,178	(3,500)	718,678	6,761	215,372
Request for resources 3 (notes 11 and 34)	285,477	(1)	285,476	264,139	(1)	264,138	21,338	139,883
Total resources	**25,463,570**	**(1,053,037)**	**24,410,533**	**24,924,478**	**(1,039,191)**	**23,885,287**	**525,246**	**22,527,619**
Non-operating cost A in A (Note 7)			**(483,520)**			**(364,233)**	**(119,287)**	**(287,020)**
Net cash requirement			**26,314,081**			**26,056,063**	**258,018**	**23,515,145**

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))

		Forecast 2003-04		Outturn 2003-04	
	Note	Income	Receipts	Income	Receipts
Total	6	-	-	121,357	*147,920*

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

Request for resources 1 – the £497,146,266.93 underspend is 2.1% of the Estimate provision.

Request for resources 2 – the £6,760,868.24 underspend is 0.9% of the Estimate provision.

Request for resources 3 – the £21,338,333.71 underspend is 7.5% of the Estimate provision.

See Note 11 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 (pages 7 to 9)

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

The main reason for the £258,018,448.93 variance between the estimated net cash requirement and the actual net cash requirement is due to the £525,245,468.88 underspend on net resources. The net total outturn of items that adjust the total net resources consumed to the total cash consumed is £17.6 million. Within this total the following variances are major contributing factors to the overall movement in the reconciliation of net resource outturn to the net cash requirement:

- The value of new student loans issued during the year was £164 million lower than expected;
- Repayments of student loans were £120 million lower than anticipated;
- The non cash items and use of provisions adjustments in the Estimate do not include all the non cash consequences of student loans, whereas the outturn includes the complete costs. This has led to net variances of £183.4 million for these adjustments.
- The Estimate did not include an adjustment for the estimated changes in working capital.

Reconciliation of resources to cash requirements (£000s)

	Note	Estimate	Outturn	Net Total Outturn compared with Estimate saving/ (excess)
Net total resources		**24,410,533**	**23,885,287**	**525,246**
Capital:				
Acquisition of fixed assets	13&14	12,715	12,506	209
Investments				
Loans issued in year	15	2,566,301	2,402,309	163,992
Increase / (Decrease) in investments	16	-	(524)	524
Non Operating A in A:				
Proceeds of fixed asset disposals	7	(575)	(1,366)	791
Repayment of Loans	7	(482,774)	(362,867)	(119,907)
Transfer of function	23	(171)	(171)	-
Accrual adjustments:				
Non cash items	4	(180,278)	(489,706)	309,428
Changes in working capital other than cash	17	-	129,484	(129,484)
Use of provision		(11,670)	481,111	(492,781)
Net cash requirement (Schedule 4)		**26,314,081**	**26,056,063**	**258,018**

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2004 (£000s)

	Note	2003-04	2003-04	2002-03 (Restated)	2002-03 (Restated)
Administration costs					
Staff costs	3	158,649		149,662	
Non-Staff administration costs	4	89,372		95,166	
Gross administration costs			**248,021**		**244,828**
Operating income	7		(10,676)		(6,817)
Net administration costs			**237,345**		**238,011**
Programme costs					
Request for resources 1					
Staff Costs	3	4,032		1,136	
Expenditure	5	23,703,997		22,597,369	
			23,708,029		22,598,505
Less: other programme income	7		(324,149)		(137,934)
			23,383,880		**22,460,571**
Request for resources 2					
Expenditure	5		709,276		210,082
Less: income	7		(3,841)		-
			705,435		**210,082**
Request for resources 3					
Expenditure	5		259,152		135,218
Less: income	7		(1)		-
			259,151		**135,218**
Net programme costs	**5**		**24,348,466**		**22,805,871**
Net operating cost	**9**		**24,585,811**		**23,043,882**
Net resource outturn	**9**		**23,885,287**		**22,527,619**

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 2004 (£000s)

	2003-04	2002-03
Net (loss)/gain on revaluation of tangible fixed assets	(3,350)	2,575
Net (loss)/gain on revaluation of intangible fixed assets	-	(78)
Total recognised gains and losses for the financial year	**(3,350)**	**2,497**

SCHEDULE 3

Balance Sheet

as at 31 March 2004 (£000s)

	Note	31 March 2004		31 March 2003	
Fixed assets:					
Tangible assets	13	80,493		82,331	
Intangible assets	14	1,417		1,704	
Loans	15	10,905,122		8,726,688	
Investments	16	-		524	
			10,987,032		**8,811,247**
Current assets					
Stocks	18	1,204		1,032	
Debtors	19	215,391		202,521	
Loans repayable within 1 year	19	560,499		561,177	
Cash at bank and in hand	20	74,398		133,223	
		851,492		**897,953**	
Creditors (amounts falling due within one year)	21	(439,663)		(614,930)	
Net current assets			**411,829**		**283,023**
Total assets less current liabilities			**11,398,861**		**9,094,270**
Provisions for liabilities and charges	22		(3,510,429)		(3,797,623)
			7,888,432		**5,296,647**
Taxpayers' equity					
General fund	23		7,888,246		5,292,970
Revaluation reserve	24		186		3,677
			7,888,432		**5,296,647**

David Normington
Accounting Officer

Date: 29 October 2004

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2004 (£000s)

	2003-04	2002-03 (Restated)
Net cash outflow from operating activities (a)	**(24,672,009)**	**(22,043,004)**
Capital expenditure and financial investment (b)	**(1,991,108)**	**(1,976,934)**
Payments of amounts due to the Consolidated Fund	**(225,703)**	**(48,324)**
Financing (c)	**26,829,995**	**24,008,010**
Increase/(Decrease) in cash in the period	**(58,825)**	**(60,252)**

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	2003-04	2002-03
Net operating cost		**24,585,811**	**23,043,882**
Adjustments for non cash transactions	4	(489,706)	(1,649,254)
Adjustments for movements in working capital other than cash	17	94,793	2,222
Use of provisions		481,111	646,154
Net cash outflow from operating activities		**24,672,009**	**22,043,004**

Analysis of capital expenditure and financial investment

	2003-04	2002-03
Intangible fixed asset additions (note 14)	672	2,159
Tangible fixed assets additions (note 13)	11,834	15,021
Proceeds from disposal of fixed assets (note 7)	(1,366)	(39)
Loans to other bodies (note 15)	2,402,309	2,292,663
Repayment of Loans (note 15)	(421,817)	(333,394)
Increase / (Decrease) in Investments (note 16)	(524)	524
Net cash outflow from investing activities	**1,991,108**	**1,976,934**

Analysis of financing and reconciliation to the net cash requirement

	2003-04	2002-03
From Consolidated Fund – current year [1]	26,075,021	23,385,422
From Consolidated Fund – prior year [2]	-	-
Advances from the Contingencies Fund	-	-
Repayment to the Contingencies Fund		(581)
Transfer from Dept of Health	644,406	529,222
Transfer from Dept of Health – capital (note 23)	171	-
Transfer from Home Office	7,363	6,394
Transfer from Dept for Constitutional Affairs	103,034	87,553
Net financing	**26,829,995**	**24,008,010**
(Increase)/Decrease in cash	**58,825**	**60,252**
Net cash flows other than financing	**26,888,820**	**24,068,262**
Adjustments for payments and receipts not related to Supply:		
CFERs received in year and not paid over	12,819	90,602
CFERs received in prior year and paid over	(90,602)	(20,933)
Transfer from Dept of Health	(644,406)	(529,222)
Transfer from Dept of Health – capital (note 23)	(171)	-
Transfer from Home Office	(7,363)	(6,394)
Transfer from Dept for Constitutional Affairs	(103,034)	(87,553)
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	-	-
Transitional adjustment for working capital	-	383
Net cash requirement (Schedule 1)	**26,056,063**	**23,515,145**

[1] Amount of grant actually issued to the department to support the net cash requirement = £26,075,021,417.00
[2] 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 2004 (£000s)

	2003-04			2002-03 (Restated)		
	Gross	Income	Net	Gross	Income	Net
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	4,582,640	(29,763)	4,552,877	4,326,178	(3,422)	4,322,756
Objective 2	11,065,759	(34,522)	11,031,237	9,356,444	(7,832)	9,348,612
Objective 3	9,276,079	(274,382)	9,001,697	9,506,011	(133,497)	9,372,514
Net Operating Costs	**24,924,478**	**(338,667)**	**24,585,811**	**23,188,633**	**(144,751)**	**23,043,882**

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 25 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 2003-04 *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 their results have not been consolidated into these accounts.

1.3 Tangible fixed assets

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

1.4 Leases

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

1.5 Depreciation

Freehold land is not depreciated.

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

Freehold 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.

1.6 Intangible fixed assets

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

1.7 Investments

1.7a Loans
The Department currently makes only two forms of loan, namely:

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

The loans to schools fall into two categories. The first were issued under Schedule 3 of the Schools Standards and Framework Act 1998 (formerly known as Section 105 loans), and the second are issued under Section 255 loans formerly issued by the Funding Agency for Schools (FAS).

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

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

Section 255 loans were issued to grant maintained schools by FAS. New loans are no longer issued and at 31 March 2004 all loans were fully repaid.

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

1.7b Investments
The Department's joint venture in Partnership for Church of England Schools was discontinued in 2004-05 and the assets and liabilities transferred to Partnership for Schools, a Non Departmental Public Body sponsored by the Department, in that year.

1.8 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.

1.9 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.

1.10 Operating income

Operating income is income which relates directly to the operating activities of the department. It is stated net of VAT. It comprises of other income such as that from investments as well as fees and charges for services provided, on a full cost basis, to external customers. It includes both income appropriated-in-aid 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.

1.11 Administration and programme expenditure

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

Notes to the Departmental Resource Accounts *(continued)*

1.12 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. Until 1 April 2003, the standard rate was 6%.

1.13 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.

1.14 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.

1.15 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. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the department. 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 it is possible to measure grants paid to specific activity in the previous period, for example Connexions providers, the grants paid are accrued in the Operating Cost Statement and shown as a liability on the Balance Sheet.

1.17 Provisions

In addition to Early Departure Costs the Department provides for student support costs related to student loans which are based on the Department's best estimate of the amount and timing of the future liabilities for interest subsidy and loans to be written off. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 3.5% in real terms. Until 1 April 2003 the discount rate was 6%. As a consequence the accounts include a prior period adjustment to account for the change in rate which affects the increase in the student loan related provisions and the unwinding of all provisions. Note 22 contains discloses the details of the cost of capital rate adjustments separately from the other in year movements.

For information on the accounting policies relating to student loans see Note 1.7a.

Notes to the Departmental Resource Accounts *(continued)*

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. Transfer of functions

As part of the Machinery of Government Changes announced in June 2003, responsibility for the following functions transferred to the Department's Request for Resource 1 with effect from 1 April 2003:

- Children's social services and Teenage Pregnancy Unit from the Department of Health;
- Family and parenting law support from the Department for Constitutional Affairs;
- Family Policy Unit from the Home Office.

The staff related to the delivery of these functions were transferred to the Department. The transfer has been accounted for as a business combination using merger accounting principles in accordance with the Resource Accounting Manual. Accordingly, the results and cash flows related to the transferred services have been brought into account from the start of the financial year. Prior year comparative figures have been restated.

The share of the net operating cost for the whole financial year attributable to the transferred functions was £744,892,000.

	Function transferred from DCA	Function transferred from Dept of Health	2003-04 Function transferred from Home Office	All Other Functions	Total
Administration costs					
Staff costs	624	3,390	565	154,070	158,649
Non Staff costs	325	882	112	88,053	89,372
Gross administration costs	**949**	**4,272**	**677**	**242,123**	**248,021**
Operating Income		(81)		(10,595)	(10,676)
Net administration costs	**949**	**4,191**	**677**	**231,528**	**237,345**
Programme costs					
Request for resources 1:					
Staff costs				4,032	4,032
Expenditure	102,589	627,536	8,950	22,964,922	23,703,997
Less: income				(324,149)	(324,149)
	102,589	**627,536**	**8,950**	**22,644,805**	**23,383,880**
Request for resources 2:					
Expenditure				709,276	709,276
Less: income				(3,841)	(3,841)
	-	-	-	**705,435**	**705,435**
Request for resources 3:					
Expenditure				259,152	259,152
Less: income				(1)	(1)
	-	-	-	**259,151**	**259,151**
Net programme costs	**102,589**	**627,536**	**8,950**	**23,609,391**	**24,348,466**
Net operating cost	**103,538**	**631,727**	**9,627**	**23,840,919**	**24,585,811**

The aggregate value of assets transferred was £324,000 and the General Fund was credited with this amount. Assets were taken over at their book value in the Department of Health's accounts. No significant accounting adjustments were required to achieve consistency of accounting policies. No consideration was given for the assets transferred.

Notes to the Departmental Resource Accounts *(continued)*

2. Transfer of functions *(continued)*

	2002-03				
	Function transferred from DCA	Function transferred from Dept of Health	Function transferred from Home Office	All Other Functions	Total
Administration costs					
Staff costs	599	4,115	499	144,449	149,662
Non Staff costs	110	989	27	94,040	95,166
Gross administration costs	**709**	**5,104**	**526**	**238,489**	**244,828**
Operating Income				(6,817)	(6,817)
Net administration costs	**709**	**5,104**	**526**	**231,672**	**238,011**
Programme costs					
Request for resources 1:					
Staff costs				1,136	1,136
Expenditure	86,844	524,194	5,868	21,980,463	22,597,369
Less: income				(137,934)	(137,934)
	86,844	**524,194**	**5,868**	**21,843,665**	**22,460,571**
Request for resources 2:					
Expenditure				210,082	210,082
Less: income					-
	-	-	-	**210,082**	**210,082**
Request for resources 3:					
Expenditure				135,218	135,218
Less: income					-
	-	-	-	**135,218**	**135,218**
Net programme costs	**86,844**	**524,194**	**5,868**	**22,188,965**	**22,805,871**
Net operating cost	**87,553**	**529,298**	**6,394**	**22,420,637**	**23,043,882**

Notes to the Departmental Resource Accounts *(continued)*

3. Staff numbers and related costs

3.1 Staff costs

Staff costs consist of:

	2003-04				2002-03 (Restated)
		£000			£000
	Total	Officials	Ministers	Special Advisors	Total
Wages and salaries	**130,058**	129,611	325	122	120,812
Social Security	**10,152**	10,099	39	14	8,204
Other pension costs	**17,156**	17,136	-	20	15,573
Sub Total	**157,366**	**156,846**	**364**	**156**	**144,589**
Inward Secondments and temporary/agency staff	**5,315**	5,315			6,209
Total	**162,681**	**162,161**	**364**	**156**	**150,798**
Charged to admin Staff costs	158,649	158,129	364	156	149,662
Charged to programme costs	4,032	4,032			1,136
	162,681	**162,161**	**364**	**156**	**150,798**
Less recoveries in respect of outward secondments *	**(2,390)**	(2,390)			(1,351)
Total Net Costs	**160,291**	**159,771**	**364**	**156**	**149,447**

* Recovered as administration income.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and balances relating to the Department for Education and Skills are not identifiable within 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 2003-04, employer contributions of £17,455,539 were payable to the PCSPS (2002-03: £14,991,954) at one of four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. The Government Actuary Department reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and reflect past experiences of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £41,711.21 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% of pensionable pay. In addition, employer contributions of £4,758.00, 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.

3 persons retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £29,392.01.

Notes to the Departmental Resource Accounts *(continued)*

3.2 Average number of persons employed

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

	2003-04 Number							2002-03 Number (Restated)
Objective	**Total**	**Ministers**	**Special Advisors**	**Senior Management**	**Officials**	**Staff on inward secondment**	**Agency, temporary and contract staff**	**Total**
1	**1,629.4**	2.3	0.7	2.4	1,513	71	40	1,903
2	**2,268.8**	3.3	0.7	2.8	2,088	115	59	1,731
3	**973.8**	1.4	0.6	2.8	890	51	28	1,221
Total charged to Admin Costs	**4,872.0**	7	2	8	4,491	237	127	4,855
Staff costs charged to Programme expenditure								
- Objective 1	**29.0**				29			
- Objective 2	**30.0**				30			
TOTAL	**4,931.0**	**7**	**2**	**8**	**4,550**	**237**	**127**	**4,855**

The comparative figures have been restated to reallocate the staff number for the new functions transferred as part of the Machinery of Government Changes.

Notes to the Departmental Resource Accounts *(continued)*

3.3 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

	2003-04		2002-03	
	Ministerial Salary Received	Benefits in kind (rounded to nearest £100)	Ministerial Salary Received	Benefits in kind (rounded to nearest £100)
Ministers				
Rt. Hon Charles CLARKE *Secretary of State (From 25 October 2002)*	£71,433	-	£30,423	-
Rt. Hon Estelle MORRIS MP *Secretary of State (To 23 October 2002)*	N/A	N/A	£56,715	-
Margaret HODGE MBE MP *Minister of State*	£37,055	-	£36,240	-
David MILIBAND MP *Minister of State (From 30 May 2002)*	£37,055	-	£30,394	-
Alan JOHNSON MP *Minister of State (From 16 June 2003)*	£29,335[1]	-	N/A	N/A
Stephen TIMMS MP *Minister of State (To 29 May 2002)*	N/A	N/A	£9,060	-
Baroness Catherine ASHTON *Parliamentary Under Secretary of State*	£93,656	-	£91,325	-
Ivan LEWIS MP *Parliamentary Under Secretary of State*	£28,125	-	£27,506	-
Stephen TWIGG MP *Parliamentary Under Secretary of State (From 30 May 2002)*	£28,125	-	£23,069	-
John HEALEY MP *Parliamentary Under Secretary of State (To 29 May 2002)*	N/A	N/A	£4,436	-

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

Notes to the Departmental Resource Accounts *(continued)*

3.3 Salary and pension entitlements *(continued)*

	2003-04		2002-03	
	Ministerial Salary Received	Benefits in kind (rounded to nearest £100)	Ministerial Salary Received	Benefits in kind (rounded to nearest £100)
Officials				
Mr David NORMINGTON *Permanent Secretary*	155 - 160	-	140 – 145	-
Mr Peter SHAW *Director General (To 6 October 2003)*	70 - 75[1]	-	120 - 125	-
Mr Peter MAKEHAM *# *Director General*	130 - 135	-	120 - 125	-
Mrs Susan THOMAS *Director General*	105 - 110	-	100 - 105	-
Mr Peter HOUSDEN *Director General*	150 - 155	2,500	130 - 135	2,800
Mrs Janice SHINER *# *Director General*	125 - 130	-	100 - 105	-
Mr Peter WANLESS *Director (To 1 February 2003)*	N/A	N/A	75 - 80	-
Mrs Anne JACKSON *Acting Director (To 16 June 2003)*	15 - 20[2]	-	10 - 15	-
Mr Tom JEFFREY *Director General (From 10 November 2003)*	40 – 45[3]	-	N/A	N/A
Mr Michael STEVENSON *Director (From 9 June 2003)*	85 - 90[4]	-	N/A	N/A
Ms Ruth THOMPSON *Acting Director General* *(16 June 2003 - 30 November 2003)*	40 - 45[5]	-	N/A	N/A

* opted to join premium
** opted to join classic plus
\# pension details assume maximum commutation of pension lump sum

[1] Figure quoted is for the period 1 April 2003 to 6 October 2003. The full year equivalent is £124,330.
[2] Figure quoted is for the period 1 April 2003 to 16 June 2003. The full year equivalent is £74,261.
[3] Figure quoted is for the period 10 November 2003 to 31 March 2004. The full year equivalent is £110,926.
[4] Figure quoted is for the period 9 June 2003 to 31 March 2004. The full year equivalent is £105,000.
[5] Figure quoted is for the period 16 June 2003 to 30 November 2003. The full year equivalent is £93,424.

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 4 for information on the non-executive board members remuneration.

Notes to the Departmental Resource Accounts *(continued)*

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 (£56,358, 2002-03 £55,118) 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 2004 was £47,500. The notional interest on this loan is regarded as a taxable benefit.

B Pension Benefits

	Real increase in pension and related lump sum at age 65	Total accrued pension at age 65 at 31/03/04 and and related lump sum	CETV at 31/03/03	CETV at 31/03/04	Real increase in CETV after adjustment for inflation and changes in market investment factors
	(£000)	(£000)	(£000)	(£000)	(£000)
Ministers					
Rt. Hon Estelle MORRIS MP *Secretary of State (To 23 October 2002)*	0-2.5	0-5	N/A	N/A	N/A
Rt. Hon Charles CLARKE *Secretary of State (From 25 October 2002)*	0-2.5	0-5	26	44	10
Margaret HODGE MBE MP *Minister of State*	0-2.5	0-5	39	50	7
Stephen TIMMS MP *Minister of State (To 29 May 2002)*	0-2.5	0-5	N/A	N/A	N/A
David MILIBAND MP *Minister of State (From 30 May 2002)*	0-2.5	0-5	5	12	3
Alan JOHNSON MP *Minister of State (From 16 June 2003)*	0-2.5	0-5	27	35	4
Baroness Catherine ASHTON *Parliamentary Under Secretary of State*	0-2.5	0-5	23	39	9
John HEALEY MP *Parliamentary Under Secretary of State (To 29 May 2002)*	0-2.5	0-5	N/A	N/A	N/A
Ivan LEWIS MP *Parliamentary Under Secretary of State*	0-2.5	0-5	7	12	2
Stephen TWIGG MP *Parliamentary Under Secretary of State (From 30 May 2002)*	0-2.5	0-5	8	13	2

Notes to the Departmental Resource Accounts *(continued)*

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 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, and 9% if they have opted for the 1/40th accrual rate.

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)*

	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/04 and and related lump sum	CETV at 31/03/03	CETV at 31/03/04	Real increase in CETV after adjustment for inflation and changes in market investment factors	Employer contribution to Partnership pension account
	(£000)	(£000)	(£000)	(£000)	(£000)	(nearest £100)
Officials						
Mr David NORMINGTON *Permanent Secretary*	2.5 – 5 plus 12.5 – 15 lump sum	55 – 60 plus 165 – 170 lump sum	800	924	79	-
Mr Peter SHAW *Director General* *(To 6 October 2003)*	0 – 2.5 plus 5 – 7.5 lump sum	50 – 55 plus 150 – 155 lump sum	858	888	26	-
Mr Peter MAKEHAM *# *Director General*	5 – 7.5 lump sum n/a Premium	60 – 65 lump sum n/a Premium	770	880	74	-
Mrs Susan THOMAS *Director General*	0 – 2.5 plus 2.5 – 5 lump sum	30 – 35 plus 100 – 105 lump sum	527	572	14	-
Mr Peter HOUSDEN *Director General*	0 -2.5 plus 2.5 – 5 lump sum	0 – 5 plus 5 -10 lump sum	28	51	22	-
Mrs Janice SHINER *# *Director General* **Pensions Capped**	20-22.5 lump sum n/a Premium	30 – 35 lump sum n/a Premium	143	443	69	-
Mrs Anne JACKSON *Acting Director* *(To 16 June 2003)*	0 – 2.5 plus 0 - 2.5 lump sum	20 – 25 plus 65 – 70 lump sum	317	328	10	-
Mr Tom JEFFREY *Director General* *(From 10 November 2003)*	2.5 – 5 plus 12.5 – 15 lump sum	30 – 35 plus 90 – 95 lump sum	418	488	69	-
Mr Michael STEVENSON *Director (From 9 June 2003)* **Pensions Capped**	0 – 2.5 lump sum n/a Premium	0 – 5 lump sum n/a Premium	0	14	14	-
Ms Ruth THOMPSON *Acting Director General* *(16 June 2003 -* *30 November 2003)*	0 – 2.5 plus 5 - 7.5 lump sum	25 – 30 plus 85 – 90 lump sum	426	463	31	-

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).

Notes to the Departmental Resource Accounts *(continued)*

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 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)*

4. Non-Staff administration costs

	2003-04		2002-03 (Restated)	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	869		812	
Other operating leases	21,183	22,052	19,288	20,100
Non-cash items (administration costs note a):				
Depreciation and Amortisation of fixed assets				
Civil Estate	815		860	
Other tangible fixed assets	7,501		7,347	
Intangible fixed assets	806		765	
Permanent diminution in fixed asset values	731		2,476	
(Profit) / loss on disposal of fixed assets	60		81	
Cost of capital charge:				
Civil Estate	1,116		1,831	
Other items	183		2,217	
Auditor's remuneration	300		300	
Provisions:				
Provided in year	2,464		4,224	
Change in interest rate	1,427			
Provision not required written back	(655)		(1,933)	
Unwinding of discount	893		1,814	
Total administration non cash items		15,641		19,982
Professional fees		9,031		8,435
Travel and subsistence		8,513		8,286
Consultancy		6,534		5,854
Rates and service charges		5,881		5,831
Other expenditure		21,720		26,678
Non-staff administration costs		**89,372**		**95,166**

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 £17,000 remuneration paid to Tim Stevenson, one of the Department's non-executive board members. The second non-executive board member, Lin Homer, 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:

	2003-04	2002-03 (Restated)
	£000	£000
Other administration costs – non-cash items (as above)	15,641	19,982
Programme non-cash costs charged to operating expenditure (see note 5)	474,542	1,629,281
Less non-cash income		
Profit on sale of fixed assets	(477)	(9)
Total non-cash transactions	**489,706**	**1,649,254**

Notes to the Departmental Resource Accounts *(continued)*

5. Net programme costs

	Note	2003-04	2002-03 (Restated)
		£000	£000
Current grants and other current expenditure		24,414,226	22,638,818
Research and Development costs		12,527	11,640
Cost of Capital on Programmes:		249,704	293,347
gross programme spend		24,676,457	22,943,805
less programme income	7	(327,991)	(137,934)
		24,348,466	**22,805,871**
Included in programme costs are the following non- cash items			
Cost of Capital on Programmes		249,704	293,347
Depreciation		476	-
Provisions :	22		
Provided in year		820,312	1,084,792
Change in interest rate		(697,477)	-
Provision not required written back		(39,417)	(4,291)
Unwinding of discount		109,064	243,316
Student loans capitalised interest	15	(205,172)	(125,896)
Student loans domicile adjustment	15	(288)	1,763
Student loans repurchased sold debt	15	(631)	-
Admin charges applied to student loans	15	(1,966)	(1,974)
Repayment of teachers' loans	15	8,100	1,464
Student loan interest subsidy inflation adjustment	23	231,837	136,760
Total programme non cash items		**474,542**	**1,629,281**

6. 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 2003-04		Outturn 2003-04	
	Income	***Receipts***	Income	***Receipts***
	£000	£000	£000	£000
Operating income and receipts – excess A in A:				
- relating to 2002-03	-	-	-	*31,000*
- relating to 2003-04	-	-	341	-
Non-operating income and receipts – excess A in A	-	-	-	-
Subtotal	**-**	**-**	**341**	***31,000***
Other operating income and receipts not classified as A in A	-	-	62,332	*62,336*
Other non-operating income and receipts not classified as A in A	-	-	58,684	*54,584*
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total	**-**	**-**	**121,357**	***147,920***

Notes to the Departmental Resource Accounts *(continued)*

7. Income and appropriations in aid

7.1 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 9). In 2003-04, all operating income not classified as Appropriations in Aid was within public expenditure.

2003-04

	Resource Outturn	**Reconciliation to Operating Cost Statement**				**Operating Cost Statement**
	Appropriations in Aid	Transfer of Estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transfers between Requests for Resources	Income
	£000	£000	£000	£000	£000	£000
Administration income:						
Profit on disposal of assets	(477)					(477)
Transfer of functions						
Other miscellaneous	(10,199)					(10,199)
	(10,676)	-	-	-	-	**(10,676)**
Programme income:						
Transfer of functions	(763,197)	763,197				-
Other income	(265,318)			(62,673)		(327,991)
	(1,028,515)	763,197	-	**(62,673)**		**(327,991)**
Total	**(1,039,191)**	**763,197**	**-**	**(62,673)**	**-**	**(338,667)**

2002-03

	Resource Outturn	**Reconciliation to Operating Cost Statement**				**Operating Cost Statement**
	Appropriations in Aid	Transfer of Estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transfers between Requests for Resources	Income
	£000	£000	£000	£000	£000	£000
Administration income:						
Allowable within the admin costs limit	(2,035)					(2,035)
Other miscellaneous	(4,782)					(4,782)
	(6,817)	-	-	-	-	**(6,817)**
Programme income:						
Other income	(30,952)			(106,982)		(137,934)
Total	**(37,769)**	**-**	**-**	**(106,982)**	**-**	**(144,751)**

Notes to the Departmental Resource Accounts *(continued)*

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

	2003-04 Income	2003-04 Full cost	2003-04 Surplus/ Deficit	2002-03 Income	2002-03 Full cost	2002-03 Surplus/ Deficit
	£000	£000	£000	£000	£000	£000
Careers Services	(598)	1,773	1,175	(891)	1,471	580
Department for Work and Pensions				(27)	27	-
	(598)	1,773	1,175	(918)	1,498	580

7.2 Non-operating income not classified as Appropriations in Aid

	2003-04 Income	2003-04 Receipts	2002-03 Income	2002-03 Receipts
	£000	£000	£000	£000
Student loans interest repayments	58,950	54,584	46,485	39,655

Non-operating Appropriations in Aid

	2003-04 Income	2003-04 Receipts	2002-03 Income	2002-03 Receipts
	£000	£000	£000	£000
Principal repayments of student loans	362,123	335,294	285,554	243,592
Principal repayments of loans to schools	744	737	1,355	1,364
Proceeds from disposal of fixed assets	1,366	1,366	39	39
	364,233	**337,397**	**286,948**	**244,995**

8. Administration cost limits

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

	2003-04 Outturn	2003-04 Limits	2002-03 Outturn	2002-03 Limits
	£000	£000	£000	£000
Request for resources 1 (gross limit)	218,030	219,920	205,889	211,046
Request for resources 2 (gross limit)	12,902	13,404	5,290	6,455
Request for resources 3 (gross limit)	4,987	5,581	4,665	3,924
	235,919	**238,905**	**215,844**	**221,425**
Administration Expenditure excluded from administration cost limit	1,426			
Administration Income Allowable within the administration cost limit	10,676			
Total administration outturn	**248,021**			

Notes to the Departmental Resource Accounts *(continued)*

9. Reconciliation of net operating cost and net resource outturn

	2003-04	2002-03 (Restated)
	£000	£000
Net operating cost (note a)	**24,585,811**	**23,043,882**
Add: - Excess Appropriations in Aid (Note 6)	341	105,992
Add: - operating income not classified as A in A but within public expenditure (note 6) (All other CFERs not including student loans)	62,332	990
- Adjust for transfer of Estimate cover in respect of transfer of functions	(763,197)	(623,245)
Net resource outturn (note a)	**23,885,287**	**22,527,619**

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).

10. Analysis of net operating cost by spending body

	2003-04 Budget	2003-04 Outturn	2002-03 (Restated) Outturn
	£000	£000	£000
Spending body:			
Non Departmental Public Bodies (NDPBs):			
Adult Learning Inspectorate (ALI)	30,000	26,700	23,804
British Educational Communications and Technology Agency (BECTA)	11,200	11,155	4,843
Children and Family Court Advisory and Support Services (CAFCASS)	97,500	97,499	81,769
Higher Education Funding Council for England (HEFCE)	5,655,600	5,608,837	5,083,649
Investors in People UK Ltd (IiP UK)	5,200	4,726	1,625
Learning and Skills Council (LSC)	8,601,600	8,604,300	7,535,543
National College for School Leadership (NCSL)	80,700	85,291	60,500
Qualifications and Curriculum Authority (QCA)	94,700	81,657	77,815
Sector Skills Development Agency (SSDA)	45,100	30,243	14,737
Student Loans Company Ltd (SLC)	45,600	45,548	31,681
Teacher Training Agency (TTA)	503,600	514,301	427,166
Public Corporations:			
General Teaching Council (GTC)	3,300	1,463	3,752
Local Authorities	6,467,815	6,425,768	5,847,726
Other DfES	3,531,815	3,048,323	3,849,272
Total	**25,173,730**	**24,585,811**	**23,043,882**

Notes to the Departmental Resource Accounts *(continued)*

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

2003-04

	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 – 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	**230,132**	**178,420**	**23,529,609**	**23,938,161**	**(1,035,690)**	**22,902,471**	**23,399,618**	**497,147**

Notes to the Departmental Resource Accounts *(continued)*

11. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement *(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**

Notes to the Departmental Resource Accounts *(continued)*

11. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement *(continued)*

2002-03 (Restated)

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

	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
A Support for Schools and Teachers not paid through LEAs		11,588	427,001	438,589	(2,918)	435,671	639,340	203,669
B Childcare			161,272	161,272		161,272	184,000	22,728
C Support for Young People		431,125	98,240	529,365	(2,250)	527,115	593,431	66,316
D Higher Education		7,014	115,387	122,401	(3,689)	118,712	156,389	37,677
E Further Education, Adult Learning and Lifelong Skills		71,171	245,560	316,731	(21,557)	295,174	476,950	181,776
F Support for Students in Higher Education			1,578,783	1,578,783		1,578,783	1,516,132	(62,651)
G Activities to support all functions	207,924	33,743	1,100	242,767	(7,013)	235,754	237,850	2,096
H Compensation to former College of Education Staff			11,290	11,290		11,290	10,951	(339)
I Grants for LEAs to support Schools and Teachers			3,435,302	3,435,302	(143)	3,435,159	3,317,777	(117,382)
J Higher Education Fees and Awards through LEAs			89,064	89,064		89,064	72,699	(16,365)
K Education Maintenance Allowances			122,040	122,040		122,040	186,305	64,265
L Learning Partnership Fund			5,567	5,567		5,567	6,300	733
M Cost of Capital, Depreciation and Provisions	12,848	1,872	(16,962)	(2,242)	(199)	(2,441)	13,889	16,330
N Capital Grants to Schools and other Educational Institutions plus GIA to NDPBs			2,382,806	2,382,806		2,382,806	2,353,973	(28,833)
O Childcare Capital			749	749		749	3,000	2,251
P Capital Support for Young People			5,351	5,351		5,351	8,020	2,669
Q Loans, Capital Grants and GIA to NDPBs supporting higher Education			5,095,833	5,095,833		5,095,833	4,998,397	(97,436)
R Capital Grants Supporting Further & Adult Education & GIA to NDPBs			7,674,465	7,674,465		7,674,465	7,779,724	105,259
Total	**220,772**	**556,513**	**21,432,848**	**22,210,133**	**(37,769)**	**22,172,364**	**22,555,127**	**382,763**

Request for Resources 2 – Promoting physical, intellectual and social development of babies, and their families and young children through Sure Start

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
A Sure Start Administration and Current Grants	5,290	4,394	174,278	183,962	-	183,962	286,163	102,201
B Depreciation and Cost of Capital		134		134	-	134	111	(23)
C Sure Start Capital Grants			31,276	31,276	-	31,276	162,983	131,707
Total	**5,290**	**4,528**	**205,554**	**215,372**	**-**	**215,372**	**449,257**	**233,885**

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

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
A The Children's Fund	4,665		135,218	139,883		139,883	150,000	10,117
Total	**4,665**	**-**	**135,218**	**139,883**	**-**	**139,883**	**150,000**	**10,117**

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
Resource Outturn	**230,727**	**561,041**	**21,773,620**	**22,565,388**	**(37,769)**	**22,527,619**	**23,154,384**	**626,765**

Notes to the Departmental Resource Accounts *(continued)*

11. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement *(continued)*

Reconciliation to Operating Cost Statement

	Gross Resource Expenditure	A in A	NET TOTAL
Non - Supply Expenditure			-
Adjust for transfer of Estimate cover in respect of transfer of functions	**623,245**		623,245
Income payable to the Consolidated Fund		(990)	(990)
Excess A in A		(105,992)	(105,992)
Gross Operating Expenditure	**23,188,633**		
Operating Income		**(144,751)**	
Net Operating Cost			**23,043,882**

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

	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)
				2,050,056

	2002-03			
	Capital Expenditure	Loans etc	A in A	Net Total
	£000	£000	£000	£000
Request for resources 1	17,180	2,293,187	(286,948)	2,023,419
Request for resources 2				-
Request for resources 3				-
Total	**17,180**	**2,293,187**	**(286,948)**	**2,023,419**
Non A in A income from disposal of fixed assets.				-
				2,023,419

Notes to the Departmental Resource Accounts *(continued)*

13. 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 2003	62,074	346	31,308	527	14,678	108,933
Additions	-	12	8,852	202	2,768	11,834
Disposals	(911)	(45)	(8,915)	(93)	(1,794)	(11,758)
Revaluations	(3,584)	(2)	(1,316)	18	(24)	(4,908)
At 31 March 2004	**57,579**	**311**	**29,929**	**654**	**15,628**	**104,101**
Depreciation						
At 1 April 2003	3,173	222	17,330	239	5,638	26,602
Provided in year	1,291	23	5,373	67	2,038	8,792
Disposals	(31)	(38)	(8,904)	(72)	(1,762)	(10,807)
Revaluations	(159)	(2)	(731)	12	(99)	(979)
At 31 March 2004	**4,274**	**205**	**13,068**	**246**	**5,815**	**23,608**
Net book value at 31 March 2004	**53,305**	**106**	**16,861**	**408**	**9,813**	**80,493**
Net book value at 31 March 2003	**58,901**	**124**	**13,978**	**288**	**9,040**	**82,331**
Asset financing:						
Owned	53,305	106	16,861	408	9,813	80,493
Net book value at 31 March 2004	**53,305**	**106**	**16,861**	**408**	**9,813**	**80,493**

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 balance brought forward includes assets totalling £324,000 which have been transferred from the Department of Health during 2003-04 as part of the Machinery of Government Changes at no cost to the Department.

Notes to the Departmental Resource Accounts *(continued)*

14. Intangible fixed assets

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

	Purchased software licences
	£000
Cost or Valuation	
At 1 April 2003	2,662
Additions	672
Disposals	-
Revaluations	(240)
At 31 March 2004	**3,094**
Amortisation	
At 1 April 2003	958
Charged in year	806
Disposals	-
Revaluations	(87)
At 31 March 2004	**1,677**
Net book value at 31 March 2004	**1,417**
Net book value at 31 March 2003	**1,704**

15. Loans

	Students	Section 255	Schedule 3	Total
	£000	£000	£000	£000
Balance at 1 April 2003	8,725,834	-	854	8,726,688
Amounts previously transferred to debtors 2002-03 (note 19)	560,465	651	61	561,177
Total loans outstanding at 1 April 2003	**9,286,299**	**651**	**915**	**9,287,865**
Student loans domicile adjustment	288			288
Repurchase of sold debt	631			631
New loans	2,402,309			2,402,309
Interest added	205,172			205,172
Admin charge applied	1,966			1,966
Repayments	(421,073)	(651)	(93)	(421,817)
Write offs	(2,693)			(2,693)
Repayment of Teachers Loans	(8,100)			(8,100)
	11,464,799	**-**	**822**	**11,465,621**
Amounts repayable in 12 months transferred to debtors	560,465		34	560,499
Balance at 31 March 2004	**10,904,334**	**-**	**788**	**10,905,122**

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 Loan 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 22).

Notes to the Departmental Resource Accounts *(continued)*

The Section 255 loans were issued by the Funding Agency for Schools (FAS) from money provided by the Department to help grant maintained schools fund capital projects. Responsibility for administering the loans transferred to the Department on 31 March 2000. At the 31 March 2004 all loans were fully paid (there were 22 loans outstanding in 2002-03).

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 2004 there were 5 outstanding loans (9 in 2002-03).

16. Investment

	Partnerships for Church of England Schools		Total
	Share Capital	Working Capital	
	£000	£000	£000
Balance at 1 April 2003	225	299	524
Transfer	(225)	(299)	(524)
Balance at 31 March 2004	-	-	-

In partnership with Partnerships UK PLC and The National Society (Church of England) for promoting Religious Education, the Department has entered into a joint venture company called Partnerships for Church of England School Limited (PfCS). The company is jointly controlled by the three partners, with the Department holding 45% of the allotted ordinary shares. Two DfES employees have been appointed to the board.

The company was set up in March 2003 with the objective to provide services to Church of England Schools to enable new forms of investment in Church of England Voluntary Aided Schools. Its core purpose is to make the benefits of the Private Finance Initiative / Public-Private Partnership investments, new and improved facilities on a whole life costed value for money basis, available to the many Church of England VA schools that have not been able to access them to date. This will help schools address the premises that can adversely affect educational performance. This will be achieved by aggregating schemes under a nationally managed procurement to secure better value for money than can be achieved under individual school procurements, and by managing a programme of schemes under a national initiative to offer a more attractive opportunity to the private sector.

The Department's joint venture in Partnership for Church of England Schools was discontinued in 2004-05 and the assets and liabilities transferred to Partnership for Schools, a Non Departmental Public Body sponsored by the Department, in that year.

Notes to the Departmental Resource Accounts *(continued)*

17. Movements in working capital other than cash

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

	2003-04	2002-03
	£000	£000
Increase/(decrease) in stocks	172	233
Increase/(decrease) in debtors (exc. debtors loans repayable within 1 year and MOGC debtors)	4,476	(14,065)
(Increase)/decrease in creditors (exc. cash payable to the Consolidated Fund)	89,878	16,177
Non operating student loan interest adjustment	267	(123)
Movement in working capital other than cash (Schedule 4)	**94,793**	**2,222**
Adjustment to movement in working capital not related to supply:		
CFER not yet received (Note 21)	**(9,033)**	**(35,597)**
CFER received	**35,597**	**-**
Adjustment for movement in MOGC debtors	**8,394**	**-**
Transitional adjustment	**-**	**383**
Non operating student loan interest adjustment	**(267)**	**123**
Movement in working capital other than cash (Schedule 1)	**129,484**	**(32,869)**

18. Stocks

	2003-04	2002-03
	£000	£000
Stocks	1,204	1,032
	1,204	**1,032**

The Connexions Service publish a catalogue of free and priced publications for use by careers' services, schools and colleges. The closing stock balance is the value of priced publications held in store.

19. Debtors

	2003-04	2002-03
	£000	£000
Amounts falling due within one year:		
VAT	34,836	33,261
Trade debtors	53,782	36,652
Deposits and advances	2,011	2,035
Other debtors	2,294	2,470
Prepayments and accrued income	108,556	118,263
MOGC debtors	8,394	-
	209,873	**192,681**
Amounts falling due after more than 1 year:		
Prepayment of early departure pre-funding	5,518	9,840
	215,391	**202,521**
Transfer of loans repayable within one year (note 15)	**560,499**	**561,177**

Included within current assets is £9,033,000 (2002-03: £35,597,000) that will be due to the Consolidated Fund once the debts are collected.

Notes to the Departmental Resource Accounts *(continued)*

20. Cash at bank and in hand

	2003-04	2002-03
	£000	£000
Balance at 1 April	133,223	193,475
Net change in cash balances:	(58,825)	(60,252)
Balance at 31 March	**74,398**	**133,223**
The following balances at 31 March are held at:		
Office of HM Paymaster General	74,350	133,122
Commercial banks and cash in hand	48	101
Balance at 31 March	**74,398**	**133,223**
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	42,621
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	12,819	90,602
	74,398	**133,223**

21. Creditors

	2003-04	2002-03
	£000	£000
Amounts falling due within one year:		
Other taxation and social security	65	-
Trade creditors	351,921	387,168
Department for Work and Pensions	-	8,234
Accruals and deferred income	4,246	50,708
Consolidated Fund receipts not yet paid over	12,819	90,602
Amounts issued from the Consolidated Fund for supply but not spent at year end	61,579	42,621
Consolidated Fund income not yet received	9,033	35,597
	439,663	**614,930**

Notes to the Departmental Resource Accounts *(continued)*

22. Provisions for liabilities and charges

	Early Departure cost	Student loans write off	Student loans interest subsidy	Student loans debt sale subsidy	Residual TEC property provision	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2003	35,491	1,013,707	2,142,892	602,074	3,459	3,797,623
Provided in year	2,464	219,825	600,376		111	822,776
Change in Interest rate [1]	1,427	-	(856,497)	158,471	549	(696,050)
Provision not required written back	(655)			(39,393)	(24)	(40,072)
Provision utilised in the year	(10,818)	(2,693)	(427,089)	(42,751)	(453)	(483,804)
Unwinding of discount	893		82,304	26,619	140	109,956
Balance at 31 March 2004	**28,802**	**1,230,839**	**1,541,986**	**705,020**	**3,782**	**3,510,429**

[1] The Department has revalued all discounted provisions created prior to 1 April 2003 due to the change in the cost of capital rate from 6% to 3.5%.

Early departure costs

The department meets the additional costs of benefits beyond normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departures and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury cost of capital rate of 3.5% in real terms. In the past years the department paid in advance some of its liability for early retirement by making a payment to the Paymaster's General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment.

There are additional discounted early departure costs of £6.8m which are funded under the 80/20 scheme approved by the Treasury.

Student loans

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

Student loans are effectively interest free as students are only charged interest equivalent to the rate of inflation. The Department meets the costs resulting from difference between the interest paid by students and the cost of capital on loans, which is known as the interest subsidy. The interest subsidy provision meets the cost of the interest over the life of the loan and is offset by the annual interest subsidy charge.

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

TEC 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.

Notes to the Departmental Resource Accounts *(continued)*

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

	2003-04		2002-03 (Restated)	
	£000	£000	£000	£000
Net Operating cost for the year (Schedule 2)	(24,585,811)		(23,043,882)	
Machinery of Government Changes	-		-	
Income not appropriated in aid payable to Consolidated Fund	(121,623)		(153,467)	
		(24,707,434)		**(23,197,349)**
Net parliamentary funding				
Drawn Down	26,075,021		23,385,422	
Deemed Supply	42,621		172,343	
Transfer from DoH, HO and DCA	763,197		-	
Non Operating A in A transfer from DoH	171		-	
		26,881,010		23,557,765
Non-cash charges:				
Cost of capital	251,003		297,395	
Auditor's remuneration	300		300	
Student loan interest subsidy inflation adjustment	231,837		136,760	
Transferred to general fund of realised element of revaluation reserve (note 24)	141		134	
Assets sold as CFER	(2)		-	
Assets transferred from Home Office	-		31	
Machinery of Government Changes (net)	-		623,569	
Repayments to the Contingencies Fund	-		581	
Amounts issued from the Consolidated Fund for supply but not spent at year end	(61,579)		(42,621)	
Transition from cash to resource based supply	-		(383)	
Consolidated Fund income received	-		2,224	
		421,700		1,017,990
Net increase in General Fund		**2,595,276**		**1,378,406**
General Fund at 1 April		5,292,970		3,914,564
General Fund at 31 March (Schedule 3)		**7,888,246**		**5,292,970**

24. Revaluation reserve

	2003-04	2002-03
	£000	£000
Balance at 1 April	3,677	(1,161)
Arising on revaluation during the year (net)	(3,350)	4,972
Transferred to the general fund in respect of realised element of revaluation reserve (note 23)	(141)	(134)
Balance at 31 March	**186**	**3,677**

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

Notes to the Departmental Resource Accounts *(continued)*

25. 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:

	2003-04	2002-03 (Restated)
	£000	£000
Objective 1	4,477,059	4,230,621
Objective 2	10,925,628	9,263,480
Objective 3	8,945,779	9,311,770
Total	**24,348,466**	**22,805,871**

Capital Employed by Departmental Objective

With the exception of the Sure Start computer system (which is used solely for Objective 1), the National College for 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 96% of the gross assets, the majority of the capital employed is allocated to Objective 3.

	2003-04	2002-03 (Restated)
	£000	£000
Objective 1	(42,890)	(55,110)
Objective 2	(56,401)	(57,279)
Objective 3	7,987,723	5,409,036
Total	**7,888,432**	**5,296,647**

26. Capital commitments

	2003-04	2002-03
	£000	£000
Contracted and approved commitments at 31 March 2004 for which no provision has been made	2,231	-

Notes to the Departmental Resource Accounts *(continued)*

27. 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 4) and programme expenditure.

	2003-04	2002-03
	£000	£000
Obligations under operating leases comprise:		
Land and Buildings		
Expiry within 1 year	200	270
Expiry after 1 year but not more than 5 years	1,485	1,593
Expiry thereafter	27,748	30,563
	29,433	**32,426**
Other		
Expiry within 1 year	140	95
Expiry after 1 year but not more than 5 years	270	390
Expiry thereafter	-	-
	410	**485**

Notes to the Departmental Resource Accounts *(continued)*

28. 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.

	1 April 2003	Increase in Year	Liabilities crystallised in year	Obligation expired in year	31 March 2004	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:	6,000	53,000			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;	151,200			22,996	128,204	

Notes to the Departmental Resource Accounts *(continued)*

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

	1 April 2003	Increase in Year	Liabilities crystallised in year	Obligation expired in year	31 March 2004	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;	6,500		54	1,226	5,220	
- 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.	7,700			130	7,570	
In order to ensure the Croydon Local Learning and Skills Council (LLSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CCTE) property exists in the Croydon LLSC area an indemnity to give a landlord a guarantee that, in the event of the Learning and Skills Council (LSC) ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	6,880			3,293	3,587	
In order to ensure the Learning and Skills Council (LSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training Enterprise (CCTE) property exists in Brighton, Manchester or Coventry area an indemnity to give landlords a guarantee that, in the event of the LSC ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	76,000			12,210	63,790	
In order to ensure that Adult Learning Inspectorate (ALI) commenced operations in April 2001 and because no suitable Departmental property exists in the Coventry area and indemnity to give landlords a guarantee that, in the event of ALI ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the ALI is and unknown body with no financial history.	5,800	34	391	263	5,180	

Notes to the Departmental Resource Accounts *(continued)*

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

	1 April 2003	Increase in Year	Liabilities crystallised in year	Obligation expired in year	31 March 2004	Amount reported to Parliament by departmental minute
	£000	£000	£000	£000	£000	£000
An indemnity to cover the cost of re-assessing trainees who are disadvantaged by flaws in the awarding of National Vocational Qualifications by the Road Transport Industry Training Board.	390			390	-	
Arrangements to allow the appointment of a receiver to manage the affairs of 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	6,000

29. 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 for School Leadership (NCSL)
Qualifications and Curriculum Authority (QCA)
Sector Skills Development Agency (SSDA)
Student Loans Company Ltd (SLC)
Teacher Training Agency (TTA)

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

Notes to the Departmental Resource Accounts *(continued)*

30. 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	281	16,316
Losses of accountable stores	31	5,742
Fruitless payments and constructive losses	27	725
Claims waived or abandoned	14	43
Total	**353**	**22,826**

Details of cases over £100,000

- Included in cash losses are a total 227 cases relating to improper activities by ILA providers totalling £16,230,068 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. After further investigation it was found that a lot of these publications were obsolete. Obsolete publicity materials with an estimated value of £5,722,302 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;
- A project to upgrade the human resources system was abandoned when it became apparent that the IT related costs would escalate, and better value for money would be achieved by finding an alternative software solution. The project costs incurred on the abandoned project totalled £348,682;
- As a result of changes in policy by the Department, educational materials developed by contractors (for which they would have earned royalties) were no longer relevant to the national ICT in Schools programme strategy. Under the terms of the contracts the Department was obliged to compensate contractors for the loss of potential earnings. One of the suppliers received compensation of £150,333.

Special Payments

Total	51	814

Included in the above total is a £600,000 ex-gratia payment to the Princes Trust to meet the costs it faced following SkillCity 2002.

Total Losses and Special Payments	404	23,640

Other Notes

Loans remitted (written off) in year

Loans totalling £3,151,000 issued by the Student Loans Company were remitted during the year mainly due to 681 deaths (£2,409,000) and 106 disabled borrowers (£336,000). Of this total £2,693,000 is attributable to funds provided from Estimate Line Q. See note 15 for further information on student loans. The remainder is attributed to the separate Estimates for the Student Awards Agency for Scotland (£374,000) and the Department for Employment and Learning Northern Ireland (£84,000).

Acquisition of Shares

The Department held the following shares during the financial year:

	£
Shared held at 1 April 2003	225,005
Transfer to PfS (Note 16)	(225,000)
Total Shares held at 31 March 2004	5

The closing balance of shares held by the Department comprises 5 ordinary shares of £1 in the Student Loan Company Limited .

Notes to the Departmental Resource Accounts *(continued)*

31. 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 2004.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Primary financial instruments:			
Financial assets			
Cash at Bank	74,398	74,398	
Student Loans	11,464,799	11,464,799	note a
Loans to voluntary aided schools	822	822	note b
Financial liabilities			
Provisions	(3,510,429)	(3,510,429)	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.

Notes to the Departmental Resource Accounts *(continued)*

32. Entities within the Departmental boundary

The entities within the boundary during 2003-04 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.

33. 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 £12.8 million to £3.5 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	123,659	-	-	-	123,659
Legacy payments to National and Local LSC offices	74,965	5,389	1,502	-	81,856
TEC contribution to National Transition Costs	39,903	-	-	-	39,903
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	12,215	1,335	2,025	120	15,695
Reserves distributed – Cumulative total	**260,469**	**11,844**	**23,450**	**12,849**	**308,612**
Outstanding reserves					
Attributable Funds held by liquidators	3,300				3,300
Attributable Funds held by Continuing TECs	250				250
Reserves to be repaid as at 31 March 2004	**3,550**				**3,550**
Total TEC reserves	**264,019**	**11,844**	**23,450**	**12,849**	**312,162**

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

Notes to the Departmental Resource Accounts *(continued)*

34. Actual Outturn – resource and cash

Actual Outturn – resources:

Request for Resources 1: Actual amount and net resource outturn £22,902,471,733.07. Actual amount of savings in resource over Estimate £497,146,266.93.

Request for Resources 2: Actual amount and net resource outturn £718,678,131.76. Actual amount of savings in resource over Estimate £6,760,868.24.

Request for Resources 3: Actual amount and net resource outturn £264,137,666.29. Actual amount of savings in resource over Estimate £21,338,333.71.

Actual Outturn – cash:

Net cash requirement: Outturn net requirement £26,056,062,551.07 which is £258,018,448.93 less than the Estimate.

The actual receipts surrenderable to the Consolidated Fund were £147,920,119.22.

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