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

Department for Education and Skills

Resource Accounts 2005-06

LONDON: The Stationery Office
HC 1355

20 July 2006
£11

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

Department for Education and Skills

Resource Accounts 2005-06

(For the year ended 31 March 2006)

Ordered by the House of Commons to be printed 20 July 2006

LONDON: The Stationery Office | 20 July 2006
HC 1355 | £11

Contents

Resource Accounts: Department for Education and Skills Annual Report

Scope

1. Entities within the Departmental accounting boundary

1.1 The entities within the Departmental boundary that make up these consolidated financial statements are the Department for Education and Skills (Request for resources 1), the Sure Start Unit (Request for resources 2) and the Children's and Young People's Unit who manage the Children's Fund (Request for resources 3).

2. Bodies outside the Departmental accounting boundary

2.1 During 2005-06 the Department had lead responsibility for the public sector bodies listed below, including sixteen executive Non-Departmental Public Bodies (NDPBs) and two public corporations. Two NDPBs (School Food Trust and the Quality Improvement Agency) were set up during 2005-06 and the set up costs are part of Departmental operating costs. The NDPBs have their own Accounting Officers who are responsible to Parliament for the funds received and publish their own accounts separately. Most of the NDPBs are financed through Grant in aid, with two (CITB and ECITB) partly funded by levies which they raise from industry. All other bodies listed below are outside the Departmental boundary for the Resource Accounts.

Executive Non-Departmental Public Bodies (NDPBs)

Adult Learning Inspectorate (ALI)
British Educational Communications Technology Agency (BECTA)
Children and Family Court Advisory and Support Service (CAFCASS)
Children's Commissioner (Ccom)
Higher Education Funding Council for England (HEFCE)
Investors in People UK Ltd (IiP)
Learning and Skills Council (LSC)
National College of School Leadership (NCSL)
Office for Fair Access (OFFA)
Partnerships for Schools (PfS)
Qualifications and Curriculum Authority (QCA)
Quality Improvement Agency (QIA) – operational from 1 April 2006
School Food Trust (SFT) – operational from 1 April 2006
Sector Skills Development Agency (SSDA)
Student Loans Company Ltd (SLC)
Training and Development Agency for Schools (TDA) *(Formally Teacher Training Agency)*

Public Corporations

General Teaching Council (GTC)
Learning and Skills Development Agency (LSDA) – *closed 31 March 2006 and replaced by QIA*

Executive NDPBs funded by levy

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

Tribunal NDPBs

Registered Inspectors of Schools Appeal Tribunal – *closed 1 September 2005*
Special Educational Needs and Disability Tribunal – *transferred to DCA 1 April 2006*

Advisory NDPB

School Teachers' Review Body (STRB)
Independent Advisory Group on Teenage Pregnancy (LAGTP)
Teachers' TV (TTV)

Near to Government Bodies

Adventure Activity Licensing Authority (AALA)
Basic Skills Agency
British Academy
Centre for Information on Language Teaching and Research (CILT)
University for Industry
League for the Exchange of Commonwealth Teachers

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

3. Ministers

3.1 The following ministers formed the ministerial team of the Department during the 2005-06 financial year:

Rt. Hon Ruth Kelly	Secretary of State
Rt. Hon Jacqui Smith	Minister of State for Schools and 14-19 Learners (from 10 May 2005)
Bill Rammell	Minister of State for Lifelong Learning, Further and Higher Education (from 10 May 2005)
Rt. Hon Beverly Hughes	Minister of State for Children, Young People and Families (from 10 May 2005)
Phil Hope	Parliamentary Under Secretary of State for Skills (from 10 May 2005)
Lord Andrew Adonis	Parliamentary Under Secretary of State for Schools (from 10 May 2005)
Maria Eagle	Parliamentary Under Secretary of State for Children and Families (from 10 May 2005)
Margaret Hodge	Minister of State for Children, Young People and Families (to 9 May 2005)
Stephen Twigg	Minister of State for School Standards (to 6 May 2005)
Dr Kim Howells	Minister of State for Lifelong Learning, Further and Higher Education (to 9 May 2005)
Lord Geoffrey Filkin	Parliamentary Under Secretary of State for Children and Families (to 9 May 2005)
Ivan Lewis	Parliamentary Under Secretary of State for Young People and Adult Skills (to 9 May 2005)
Derek Twigg	Parliamentary Under Secretary of State for Schools (to 9 May 2005)

4. Management of the Department

Board Membership

4.1 The Board leads the work of the Department by charting the overall strategic direction, and providing direction on major operational and management issues. To achieve its objectives the Department is organised into Directorates, which together take forward a wide-ranging policy programme, underpinned by a suite of Public Service Agreement targets against which progress and achievement is measured. Each Directorate is represented by a Director or Director General on the Management Board. The composition of the Management Board during the year was as follows:

David Bell	Permanent Secretary (from 1 January 2006)
Sir David Normington	Permanent Secretary (to 31 December 2005)
Peter Makeham	Director General, Finance Directorate and Strategy and Reform Directorate
Susan Thomas	Director General, Corporate Services and Development Directorate
Ralph Tabberer	Director General, Schools Directorate (from 13 March 2006)
Stephen Crowne	Acting Director General, Schools Directorate (from 24 October 2005 to 12 March 2006)
Peter Housden	Director General, Schools Directorate (to 21 October 2005)
Stephen Marston	Director General, Lifelong Learning and Skills Directorate (from 30 August 2005)

Peter Lauener	Acting Director, Lifelong Learning Directorate (from 9 June 2005 to 29 August 2005)
Janice Shiner	Director General, Lifelong Learning Directorate (to 17 June 2005)
Tom Jeffery	Director General, Children, Young People, and Families Directorate
Sir Alan Wilson	Director General, Higher Education Directorate
Michael Stevenson	Director, Strategy and Communication Directorate
Philip Augar	Non executive member
Lin Homer	Non executive member (to October 2005)
Christine Gilbert	Non executive member (from 25 October 2005)

4.2 The Board has assured itself of the independence of the non executive board members. In October 2005 a new non executive Board member, Christine Gilbert (Chief Executive of London Borough of Tower Hamlets), was appointed to replace Lin Homer. The appointment process followed the guidance set down in paragraph 2.8 of the Corporate Governance Code of Good Practice, including an emphasis on transparency, objectivity and induction.

4.3 In July 2005 HM Treasury issued the *Corporate Governance Code of Good Practice*. The Department was already broadly compliant with the Code but has made further changes during the year to adhere more closely to the Code's suggestions.

4.4 A summary of key decisions made at the Departmental Board is currently made available to all staff, with detailed minutes circulated to standing attendees. Staff are welcome to attend Board meetings as part of their personal development, and a number have chosen to do so in the last year.

4.5 In April 2006 the Board recruited a professional Finance Director, Jonathan Thompson, in line with section 3.3 of the Code.

Board Structure

4.6 The most significant change has been the implementation of a new Board architecture for the Department, to change the way it manages its own business. The main Departmental Board is now supplemented by five sub-boards covering Strategy, Executive Management, Efficiency and Reform, Communications and Technology. This new structure will allow the Board to focus more clearly on the Department's strategy and performance and ensure decisions are delegated to the appropriate level within the Department in line with section 2 of the Code.

4.7 The Strategy Board has been established to provide a regular forum for Senior Management in the Department to consider, debate and resolve priority strategic issues and challenges that require strategic leadership. The Strategy Board will also set strategic direction for significant cross-cutting pieces of work in conjunction with the Board proper (e.g. white papers, green papers).

Audit Committee

4.8 The composition of the Audit Committee is in line with the guidance in section 5 of the Code. It is chaired by Philip Augar, a non-executive member of the Board. The membership consists of two non-executive Board members, two executive members, and three independent members. The majority of members have recent and relevant financial experience. The Audit Committee complies with good practice outlined in HM Treasury's publication The Audit Committee Handbook. It reviews its effectiveness at least annually. The NAO, the Head of Internal Audit and the Finance Director attend all the meetings.

4.9 The Audit Committee Terms of Reference are published on the DfES website. The Terms of Reference are undergoing further revision to enhance the Committee's future role in promoting sound risk management.

4.10 During this year the Audit Committee met on four occasions. It considered:

- The management of risks within the DfES, including the risk improvement plan and High Level Risk Register, and took reports from management on those issues of significant risk to the Department's objectives.
- The departmental resource accounts, and advised that the Accounting Officer signed the Statement on Internal Control.
- Reports from the Chairman of the Fraud Sub-Committee.

- The Internal Audit strategy and plans Audit and reviewed progress and the significant findings from their activities.

Relationships with Arms Length Bodies

4.11 Section 6 of the Code sets out the relationship the Department is expected to have with its Arms Length Bodies, which for this Department are all Non-Departmental Public Bodies (NDPBs). The Department has ensured there are robust governance arrangements in place within each of its NDPBs and senior DfES officials regularly sit on NDPB Boards and audit committees. The Department has started a programme to introduce greater consistency in the management arrangements it has with its NDPBs through the Departmental sponsor teams. A project will soon be starting to review the reporting arrangements, particularly with regard to management information, in order to ensure that the Department has better early warning systems for NDPB financial management.

4.12 Following its own self assessment against the Treasury financial management framework in 2004-05, the Department has asked each of its NDPBs to carry out a similar self assessment of its own financial and risk management. The notion of shared risk, in terms of understanding and managing partners' risks, was a particular focus. The self assessment process will be annual, and will include sponsor teams as well as NDPBs with the aim of improving relationships and financial management on both sides.

5. Departmental reporting cycle

5.1 Each year the Department publishes the Departmental Report, a comprehensive review of the Department for Education and Skills (DfES) and the Office for Standards in Education (OFSTED). The latest Report published in May 2006 gives detailed information on the Department's achievements in the 2005-06 financial year, progress against our Public Service Agreement (PSA) targets and our expenditure plans based on the resources allocated in the Spending Review 2004 settlement. Further information on the Departmental performance in achieving its aims and objectives is available in the *Autumn Performance Report*. These documents are available on the DfES website (www.dfes.gov.uk).

6. Pension liabilities

6.1 The DfES balance sheet does not include the pension liabilities of its staff or ministers. The civil servants pension liabilities are part of the Principal Civil Service Pension Scheme (PCSPS) and ministers' pension liabilities are included in the Parliamentary Contributory Pension Fund (PCPF). Both pension schemes publish separate Resource Accounts. Further information on accounting treatment of pension liabilities within the DfES accounts can be found in the Remuneration Report (pages 19 – 26) and the Notes to the Accounts (Note 1 accounting policies page 38).

7. Register of interests

7.1 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 the Departmental sites in Darlington, London, Runcorn or Sheffield. Anyone wishing to view the register can contact the Department as follows:

- By e-mail to: malcolm.fielding@dfes.gsi.gov.uk
- By telephone: 020 7925 6115
- By writing to: Malcolm Fielding, Financial Accounting Division, Department for Education and Skills, Fifth Floor, Sanctuary Buildings, 20 Great Smith Street, London, SW1P 3BT.

8. Auditor

8.1 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 2005-06 totalled £300,000 for audit services for the DfES and Teachers' Pension Scheme Resource Accounts.

8.2 The National Audit Office (NAO) also carries out Value for Money studies for which they do not receive remuneration. During 2005-06 the following studies were undertaken:

- Securing strategic leadership for the learning and skills sector.

- Extending access to learning through technology: UFI and the learndirect service.
- Employers' perspectives on improving skills for employment.
- Improving poorly performing schools in England.

8.3 The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the NAO are aware of that information.

Management Commentary

9. Aims and objectives of the Department

9.1 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.

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

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

9.3 The 2005-06 objectives were to:

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

9.4 Further information on gross and net outturn by objective for both the current and prior financial year is available on the Statement of Operating Costs by Departmental Aim and Objectives.

10. Key Departmental activities during 2005-06

10.1 The following paragraphs are a summary of the operating performance during the financial year, the environment which influence decisions and performance. Further information is available in the *Departmental Report 2006* (Command paper no 6812 issued 16 May 2006), the *Autumn Performance Report* (Command Paper No 6719 issued December 2005), the *Five Year Strategy for Children and Learners* (Command Paper No 6272 issued July 2004) and the *Departmental Investment Strategy 2005-08* (published July 2005). All of these documents are available on the DfES website (www.dfes.gov.uk).

Principal activities

10.2 Working with our partners in frontline services, we are improving outcomes for all learners of all ages. During the year the Department's principal activities were:

Objective 1 – Children, Young People and Families

- Steady roll out of Sure Start Children's Centres with over 800 centres now reaching 650,000 children.
- Progressive increase of early education for three and four year olds.

- Continued expansion of childcare with 1,236,000 registered places at the end of 2005.
- Better than expected growth in schools offering extended services with almost 5,000 schools accessing support and training.
- The introduction into Parliament of legislation:
  - to strengthen the system for vetting and barring people working with children;
  - to improve childcare and outcomes for children age under-five;
  - to support contact between parents and children following separation or divorce; and
  - to promote better school standards and to support every child in fulfilling their educational potential.
- Establishment of Local Safeguarding Children Boards in all local areas by April 2006.
- Consultation on the Government's *Youth Matters* proposals to empower and support teenagers.

Objective 2 – Schools

- Publication of the *Schools White Paper – Higher Standards, Better Schools for All* was published in October 2005.
- The Education Bill received Royal Assent on 8 April 2005 when it became the Education Act 2005. The key elements of the Act are;
  - introducing the School Profile;
  - reforming OFSTED inspections;
  - forming the Teacher Development Agency by widening the remit of the Teacher Training Agency to include the continuing professional development of teachers;
  - changes to school funding arrangements including enabling powers to allow three year budgets for schools.
- Implementation of reforms in 14-19 education via the *Educations and Inspections Bill* published in February 2006, and working with teacher professional associations and other key partners.
- Paying the first instalments of a three year transitional grant to schools and local authorities to support the improvement of school food and the establishment of the Schools Food Trust.
- Support for a number of local projects to develop sustainable and effective partnerships between parents/carers, schools and their communities.

Objective 3 – Young People

- Publication of *Youth Matters* in July 2005, which set out proposals for radically reshaping of services for young people.
- Publication of the *14-19 Implementation Plan* in December 2005.
- Working with partners to implement the changes outlined in the Plan – especially the LSC and Connexions Partnerships – to improve systems, reform qualifications and curriculum and support local delivery.

Objective 4 – Adult Skills and Further Education

- Publication of the White Paper *Further Education: Raising Skills, Improving Life Chances* in March 2006.
- Establishment of the Quality Improvement Agency which became operational in April 2006.

- Working with the LSC and other key partners to implement and deliver the Skills Strategy reforms, e.g. building on Employer Training Pilots to roll out a national programme called Train to Gain.

- Supporting the Trades Union Congress in the creation of a Union Academy, launched as Unionlearn in May 2006.

- Setting up the network of National Skills Academies.

- Working with the Home Office and DWP to publish the *Reducing Re-offending through Skills and Employment* Green Paper and consultation document in December 2005.

Objective 5 – Higher Education

- Continuing work on raising participation in higher education.

- Consulting on new proposals to make applying for higher education fairer.

- Stimulating employer involvement with employers and the wider community e.g. the new Train to Gain projects for employer-led higher education.

Internal and external influences on performance

10.3 International comparisons show that the gap in attainment between children from the highest and lowest socio-economic groups is wider in the UK than almost any other OECD country. The UK also has one of the lowest staying on rates in education after the age of 16 and has a particularly large number of adults with low or no skills. These weaknesses are a constraint on the UK productivity and carry a high social cost. The Department's policies and allocation of resources are driven by addressing the Government's wider social and economic goal to build a productive, competitive economy and an inclusive society in which everyone has the opportunity to develop their learning and realise their potential. HM Treasury are leading studies of the challenges facing Government on globalisation, demography and socio-economic change, technology, global uncertainty and climate change. There are clear links between these challenges and many aspects of the Department's agenda, particularly demography, globalisation and technology and these studies will inform financial planning decisions.

10.4 Like other central government departments, the DfES has to operate within the Government's framework for expenditure control limits set by HM Treasury. These spending limits apply for 3 year periods, subject to periodic Spending Reviews. Within the total budget there are separate limits which restrict the amount of capital investment and resource spending by the Department. The Department's annual resource budget is authorised by amounts voted by Parliament through the Supply Estimates. Within the DfES Supply Estimate there are three requests for resource, that each has a voted net resource requirement. In addition to the resource limits there is an annual ceiling on the amount of cash the DfES can use to fund its resource consumption, the net cash requirement limit. The Spending Review 2004 set the Department's current financial plans, and preparatory work has begun on Comprehensive Spending Review 2007 (CSR07), which will be a major influence on future spending plans and programmes.

10.5 The Government is adopting a zero based budgeting approach for the majority of spending in CSR07 to assess the effectiveness of spending, examine long term trends and challenges over the next decade, and ensure it has the right priorities, objectives and framework for public services to meet the challenges. The Department will work with HM Treasury to review selected areas of our baselines. These reviews will be focused on releasing resources, increasing effectiveness and improving value for money for the CSR period. In DfES the four baseline reviews cover the following areas:

- Schools recurrent funding.

- Services for children with complex needs.

- 14-19 funding.

- Adult skills.

10.6 In addition the Department is undertaking a capital investment and assets review and a review of the performance framework (PSA targets) as part of CSR07 work. As well as contributing to a cross government asset management stock take, the capital and assets review will look at the impact of capital investment since

1997 and prepare for a zero based approach to capital baselines in the CSR. In conjunction with the Prime Minister's Delivery Unit, the review of the existing PSA framework will:

- Identify the levers to support delivery.
- Gain a better understanding of the costs of PSA delivery.

Five Year Strategy

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

10.8 Alongside the CSR07, the Department is undertaking parallel work to refresh the Strategy in order to have a clear view of priorities.

10.9 A critical element in the reform and development of the Department is the Capability Review, part of a cross Whitehall programme to improve the capability of the Civil Service to meet today's delivery challenges and be ready for the challenges of tomorrow. With the support of the Prime Minister's Delivery Unit, the Department has already started its Capability Review, which should help us to identify and focus on key priorities and manage change better. The report of the review, including a key action plan, will be published in September 2006.

10.10 The Department has made good progress in reforming its organisation and staffing and is on target to reduce by 850 staff by March 2006 and a further reduction of 610 staff by March 2008 – a total of 1,460 staff lower than the 4,660 October 2003 baseline staff figure. A smaller more strategic Department will also require a different mix of grades and skills. To meet this need the Department is engaged in a major programme of upskilling of its existing staff through the Learning Academy and will continue to bring in people with practical experience.

11. Environmental, social and community issues

11.1 Sustainable development spans all of the Department's work – children's services, education and skills – and that of its partners. Sustainable development means finding ways to improve people's quality of life without damaging the environment, and without storing up problems for the future, or transferring them to other parts of society or other countries. It presents challenges and opportunities for our policy development, operational practices and approach to staff development.

11.2 The Department published its Sustainable Development Action Plan *Learning for the Future* in March 2006. The action plan aims towards the following outcomes:

- policies that support the UK sustainable development strategy;
- a smaller carbon footprint and better value for money through robust environmental management practices and a more sustainable school estate;
- improved strategic working with other government departments, non-departmental public bodies and other partners;
- greater awareness of sustainable development within the Department and for those working in education, resulting in greater sustainable behaviour across the board; and positive impact on the communities served through sharing good practice and volunteering.

11.3 Education features prominently in *Securing the Future*, the UK Sustainable Development Strategy, and is recognised by governments the world over as a key part of sustainable development. The principles need to be embedded in the education system so that schools, colleges and universities become showcases of sustainable development among the communities that they serve and give young people the skills they need to put sustainable development into practice in life.

11.4 Sustainable development principles offer a framework for improving policy outcomes, connecting with other government agendas and bringing extra coherence to policy making. The Department's Public Service Agreement (PSA) targets, agreed as part of the Spending Review process, articulate the Government's highest priorities and ambitions for delivery.

11.5 The Department will demonstrate its commitment to *Securing the Future* by ensuring that all policies which drive forward the delivery of PSA targets are guided in a transparent way by sustainability principles from the earliest stages of policy development.

11.6 The *Framework for Sustainable Development on the Government Estate* was published in August 2002. It provides a structured approach to identifying, monitoring and reporting the main sustainable development impacts of each government department, and covers all government departments and their executive agencies. The Department is committed to achieving the targets set out in the *Framework for Sustainable Development on the Government Estate* and has dedicated resource for environmental management and is initiating a project which aims to mainstream sustainable development within all of our operational activity.

11.7 The Department aims to be an exemplar employer and recognises the importance of ensuring it embeds the principles of sustainability through its culture, its human resource strategy and the wider impact it has on the communities in which it is based.

Relationship with employees

11.8 Recruitment to the Department complies with the standards set by the Office of the Civil Service Commissioners' as set out in the *Civil Service Commissioners' Recruitment Code* and the *Civil Service Commissioners Guidance on Senior Recruitment*. All exercises are managed through fair and open competition. The Department also 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.

11.9 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.

11.10 The Department 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.

11.12 A full staff survey is conducted approximately every 18 months, with the last one taking place in November 2005. The survey provides reliable information on the views of staff on a range of topics. Regular tracking research is also conducted in which samples of staff are asked a small number of questions, some of which are taken from the main survey. This information provides a more frequent measure of our progress. The Department for Education and Skills Board is responding to the survey findings as part of the process of continual improvement.

Payment policy

11.13 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 2005-06, 96.3% of suppliers (96.5% in 2004-05) 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.

12. Financial performance

The following paragraphs are a summary of the financial performance during the year and the investment strategy for the future.

Comparison of outturn to Supply Estimate

12.1 The Statement of Parliamentary Supply 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 2, which reports outturn in the same format as the Supply Estimate.

12.2 The £28.5 billion net resource outturn is 4% lower than the resource limit in the Supply Estimate. The total cash consumed was £30.6 billion. This was within the Supply Estimate Net Cash Requirement limit. The full analysis of expenditure by Estimate Line is provided in Note 2. The tables below contain information on the Estimate Lines where the variance is greater than 10% of the budget.

Request for resources 1 – Core Department

In total, RfR 1 budgets were underspent by £1.16 billion, of which £715.8 million related to an underspend on grant in aid payments to NDPBs supporting further education, adult learning, and skill and lifelong learning. This variance is 6.6% of the Estimate Line S limit. As the underspend is less than 10% it is not explained below but, as it is a significant amount in terms of the overall RfR 1 variance, further information is given in Note 2.

Estimate Line	**Limit** **£000**	**Outturn** **£000**	**Variance (Over)/under** **£000**	**Explanation of variance**
A Activities to support all functions	365,029	275,640	89,389	The variance on the Estimate line falls into three categories: a) £60 million relates to an underspend on grant expenditure due to delays in the Capital Modernisation Fund cybrarian project. b) £16 million underspend on Other current costs which is largely the result of a £11 million negative cost of capital charge on cross Departmental programmes. The remaining variances are minor variances on other corporate costs, such as corporate communications. c) There was a £14 million underspend on administration costs which is largely the result of savings on pay and other staff related expenses.
B Support for schools not through LEAs	1,049,807	915,437	134,370	There are three key components of the variance: a) £81 million relates to a planned underspend on City Academies capital budgets to match resources against the timing of projects coming on stream. b) £20m underspend on schools workforce remodelling. Many of the workforce remodelling programmes are demand led and subject to variation. c) Some programmes originally budgeted for as being direct payments to schools were actually delivered by the Standards Fund. The outturn for the Standards Fund is reported in Estimate Line I.

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
D Higher Education	117,798	89,163	28,635	Expenditure on Higher Education grants is affected by the level of demand from eligible students. The Department had set aside contingency resources to meet additional costs if demand exceeded expected levels of which £10 million was not utilised. Underpsends in Foundation Degrees development and a number of smaller programmes contributed to the remaining variance.
F Further Education, Adult Learning and Skills for Lifelong Learning and International Programme	422,493	375,358	47,135	The four key causes of the variance are: a) Revised timing of the implementation of the 14-19 white paper and the skills strategy initiatives resulted in £19 million underspend this year. b) £5 million funding to schools for the14 – 19 pilot has been routed through Estimate Line B. c) Liabilities totalling £4 million for the wind down of TECs and Individual Learning Accounts did not crystallise, but are expected in future years. d) £10 million set aside to restructure the LSC has been paid out via Grant in Aid in Line S.
M Capital grants to LEAs to support children and families	29,812	18,876	10,936	The variance is the result of the deferral of some capital investment in children's services IT and secure accommodation provided through Local Authorities. This investment will now be expended in 2006-07 and 2007-08.

Request for resources 2 – Core Department

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
C LA capital grants	322,764	265,795	56,969	The variance is mainly due to lower capital spending than anticipated by Sure Start local Programmes (SSLPs), where the Local Authority (LA) is the accountable body. LAs have a range of sources of capital funding, and despite an underspend on this estimate line, the targeted number of Sure Start Children's Centre (which most SSLPs have become) was delivered.

12.3 The total RfR3 outturn was £4.2 million lower than budget, a variance of 2%. Both RfR3 Estimate lines have variances below 10% and do not require a detailed explanation. The RfR underpsnd is due to some Local Network projects failing to start on time and others operating at a lower than planned level of activity.

12.4 The Operating Cost Statement reports total administration costs and programme costs by request for resource. The Department has adopted the new format as prescribed by the *FReM* which separates expenditure into staff costs and other costs. The net operating costs have risen by £1.9 billion from £26.6 billion to £28.5 billion as a result of a corresponding increase in net programme costs.

12.5 The most significant item on the Department's balance sheet is student loans. Student loans comprise 97% of the gross assets, which has a significant impact on the Department's balance sheet. The net assets on the balance sheet have increased by £2.6 billion largely as a result of the steady increase in outstanding loan balances, which increased by £2.5 billion this year. The assets and liabilities not related to student loans have remained relatively stable. Within those totals there has been a change in the break down of creditors, with a switch from trade creditors to accruals. This reflects the increased use of estimated accruals, necessary to produce the accounts within the faster closing timetable.

12.6 The cash flow statement provides further information on how the Department finances its activities. The main source of funding is the Consolidated Fund. The statement shows a £2.3 billion increase in the net cash outflow, which reflects the overall increase in expenditure on programme grants and grant in aid. The operating costs include non-cash costs totalling £524 million. This is only 2% of the net operating costs.

12.7 The Statement of Operating Costs by Departmental Aim and Objective has been prepared by directly allocating programme costs, and apportioning indirect costs where they support a number of objectives, for example, central support service has been apportioned according to the number of staff allocated to individual objectives, and finance staff have been apportioned in relation to programme expenditure per objective.

Analysis of trends

12.8 The table below compares financial performance indicators for 2000-01 to 2005-06. It focuses on administrative costs and student loans, which have a significant impact on the Department's balance sheet.

Indicator	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**
(i) Gross admin costs as a % of total gross spend	1.7%	1.2%	1.1%	1.0%	1.0%	0.8%
(ii) Staff costs as a % of gross admin costs	54%	56%	61%	62%	58%	63%
(iii) Purchase of new assets used by the Department in year	£10,858,000	£10,552,000	£13,129,000	£12,506,000	£9,673,000	£7,968,000
(iv) Rate of replacement of departmental assets in use	8 years	7 years	6.6 years	6 years	6 years	7 years
(v) Student loans issued in year	£1,899,777,000	£2,117,714,000	£2,292,663,000	£2,402,309,000	£2,474,933,000	£2,612,651,000
(vi) Repayment of Student loans as a % of opening balance of loans	5%	5%	4.6%	4.5%	4.9%	3.7%

Explanation of trends

12.9 Gross administration cost expenditure during 2005-06 was £242 million, £20 million lower than in 2004-05. This is largely due to a decrease in the cost of staff leaving under the early departure scheme. In 2004-05 the Department's early departure expenditure was £26.8 million, but as the future planned early departure leavers are on a much smaller scale, only £7.5 million was set aside in 2005-06 for the estimated cost of new leavers. Administration costs continue to fall as a percentage of the gross expenditure and are now less than 1% of Departmental expenditure. This is due in part to the fall in administration costs, but also to the £2 billion (8%) increase in programme expenditure.

12.10 Staff costs charged to administration costs have fallen by just under £1 million, although this is offset by a corresponding increase in staff costs charged to programme expenditure. Despite the reduction in staff employed by the Department during the past year, staff costs have remained consistent due to two main factors which increased staff costs:

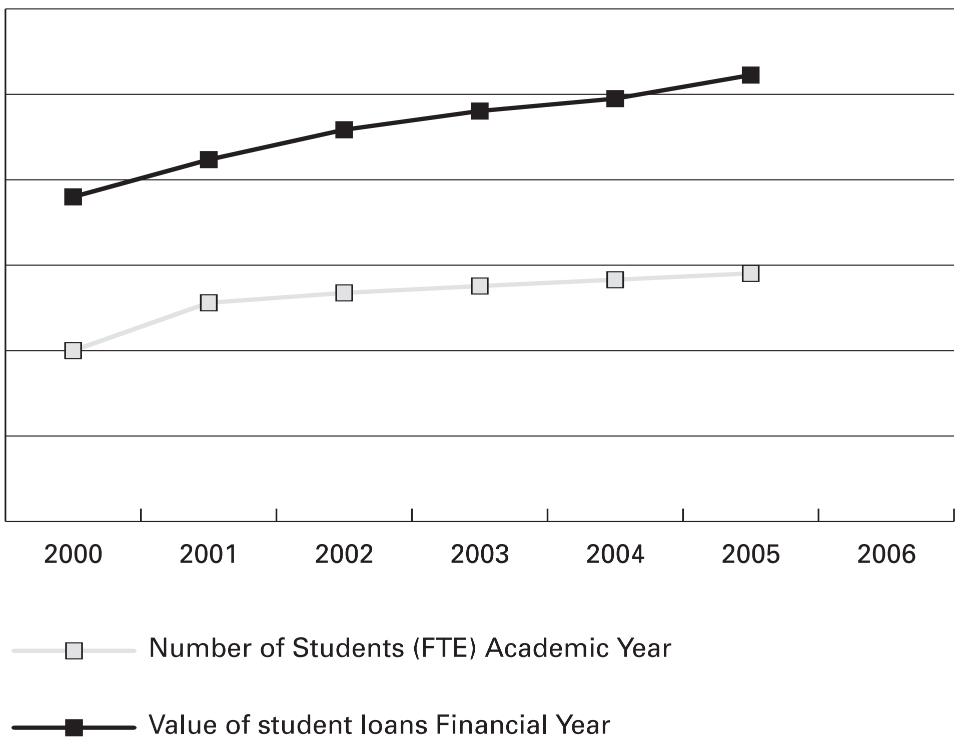
- The 2005 pay award. The total package was valued at 5.37% in 2003 as part of the 3 year pay settlement.

- Fewer staff employed in the grades Administrative Assistant to Senior Executive Officer, with an increase in the number of senior managers. This reflects the more strategic role of the Department under the five year Strategy.

12.11 The rate at which we are replacing assets continues to be in line with our asset management policy. Expenditure on the purchase of capital assets was lower than planned because the procurement of a new telephony system was deferred until 2006-07 to ensure value for money.

12.12 There is a general upwards trend in value of student loans issued during the year in line with the projected growth in student numbers as shown in the diagram below. The 2005-06 loans issued was slightly higher than this trend. The Statistical First Release on 2005-06 student loans is due to be published in July 2006.

Trends – Student loans issued and the number of students in HE 2000-01–2005-06



12.13 The cash repayment of student loans continues to increase however the rate of repayment is lower than the growth in the balance of loans. This flatter trend for repayments and the fall in the repayments as a percentage of the loans balance is due to the impact of the increase in the repayment threshold to £15,000.

Future developments

12.14 The outcome of the Comprehensive Spending Review will be a major influence on future financial plans. In the shorter term the most significant development impacting Departmental budgets is funding for schools. On 1 April 2006 DfES became responsible for paying the Dedicated School Grant to local authorities, which has previously been funded and accounted for by the Office for the Deputy Prime Minister. This transfer of responsibility has increased the 2006-07 Departmental resource budget by £26.5 billion.

12.15 On 9th June 2006 the Minister for Children and Families announced that the Department will be winding down the Connexions Card which has been operated via a public and private sector partnership between the DfES and Capita. The purpose of the card was to motivate young people to stay on in education and take part in constructive activities. The Education Maintenance Allowance has already made a major difference in addressing the issue of low participation in education among 16-year olds. Further to this, Youth Matters heralds a new direction for young people by empowering young people, giving them somewhere to go, something to do and someone to talk to. More young people will be reached and encouraged to be engaged in activities through the Youth Opportunity and Capital Funds and through new Youth Opportunity Card pilots.

Significant contingent liabilities

12.16 The Notes to the Accounts (Note 28) provides updated information on the contingent liabilities which the Department is required to report to Parliament. The following two indemnities account for £114.9 million of the £198.9 million total value:

- The Department has guaranteed leases totalling £33.5 million to landlords of properties occupied by Local Learning and Skills Council offices. This was necessary because the Learning and Skills Council was a new organisation without any financial history. Each year the liability is reduced by the annual rental payments and the balance represents the total rent payments due over the unexpired period of the lease.

- The Department has indemnities totalling £81.4 million to programme providers for any liabilities arising from the audit of schemes jointly funded by European Union (EU), the Single Regeneration Budget and other Government Department sponsored schemes. The balance represents the total value of grants paid which are yet to be audited by the EU auditors. The balance will fall below £1 million by 2008, and to be expired by 2014.

13. Investment

13.1 The Government is continuing to make substantial investment in the learning environments of children and adults, and in new ways of delivering their learning. The investment is vital to driving forward the Department's strategic objectives and achieving its PSA targets.

13.2 The Department's Five Year Strategy for Children and Learners is clear that capital investment enables better learning and teaching, improved services for children and an environment in which there is full exploitation of information and communications technology.

13.3 The Departmental Investment Strategy 2005 (DIS) covering the period 2005-08 has a number of themes which underpin departmental investment:

- Modernisation – to allow institutions to deliver learning in the 21st century.

- Personalisation – to deliver choice and investment in learning environments that are tailored to meet the needs of individual pupils and learners.

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

13.4 The following paragraphs summarise capital investment during the year and future plans by education sector. Full details of the investment plans are contained in the strategy available on the DfES website (www.dfes.gov.uk).

Sure Start (including Early Years Education and Childcare)

13.5 The Department published details of its long term commitment to deliver universal affordable childcare for 3–14 year olds in *Choice for parents, the best start for children: a ten year strategy for childcare*. A key element in delivering on these commitments is the improvement in the early years' provision infrastructure. Over £1 billion has already been invested to fund new buildings and to refurbish/extend existing facilities, and over the next couple of years the Government plan to invest over £800 million in childcare and services for the youngest children.

13.6 The 2005-06 Sure Start capital and revenue funding totalled £1.2 billion. The additional funding resulting from the 2004 Spending Review, and the 2004 Pre Budget Report, means total spending on Sure Start will reach £1.8 billion by 2007-08, double the spending in 2004-05. This funding will be used to fund the growth of the Children's Centre network to 2,500 centres by 2008, covering the most disadvantaged areas. Current plans are that by 2010 there will be 3,500 centres so that young children and families in every community will have access to a Children's Centre.

13.7 The 2004 Spending Review also made over £140 million capital funding available to provide parents of 5–11 year olds with access to childcare through their child's extended school on weekdays, from 8am to 6pm all year round. The aim is to provide access for at least half of all parents by 2008, and full coverage by 2010.

13.8 The Department also plans similar school opening hours for children in the 11 – 14 age group. Capital funding is provided to secondary schools so they can offer a range of activities such as music and sport in the school and surrounding area. By 2008, a third of secondary schools will be extended schools, with full coverage by 2010.

Schools

13.9 The Department is continuing its programme of funding projects which improve in the condition, suitability and sufficiency of the nation's schools. The Department seeks to provide a balance of programmes that enable schools, Local Authorities (LAs), dioceses and others to invest to best effect for children and learners. These include:

- Devolved programmes, where funding goes direct to every school, LA and diocese for priorities which are decided locally. By 2007-08 a typical primary school with 250 pupils will receive £34,000 to spend on buildings and ICT through the Devolved Formula Capital. A typical secondary school of 1,000 pupils will receive £113,000. In addition, by 2007-08 over £2 billion will be available for local priorities.
- Building Schools for the Future (BSF), a programme of rebuilding and renewal, will ensure that secondary education in every part of England has facilities of 21st Century standard. The aim of BSF is to deliver this goal successfully for every secondary pupil, subject to future public spending decisions.
- Targeted programmes, which focus on projects that are too large for devolved programmes and too urgent to wait for strategic programmes.

13.10 The Department continues to address the renewal of the secondary school estate by expanding the number of Academies. Academies are publicly funded independent schools, offering a broad and balanced curriculum with a specialist focus in one or more areas. Through the *Five Year Strategy for Children and Learners*, the Department committed that 200 Academies would be open or in the pipeline by 2010. In March 2006, the Department announced it had reached the half-way point towards this target, with 27 Academies currently open and another 73 in development.

13.11 The planned Academies budget for 2006-07 and 2007-08 is £55 million higher than previously reported as a result of reviews of priorities within the schools capital programme. The resources put into BSF, Academies and part of the revised Targeted Capital Fund (together around £2.9 billion in 2007-08) will mean:

- New projects underway or beginning in over a quarter of all Local Authorities (LAs) by 2007-08.
- An ambition that by 2011 projects will have begun in every LA in the country and that around 60 % of all authorities will have major rebuilding projects (at least three secondary schools) underway. All the others will have resources to tackle their secondary schools in greatest need (at least one school). The first 13 LAs have now begun their BSF one school pathfinder projects.
- By 2016, major rebuilding and remodelling projects (at least three schools) will have started in every authority.
- In fifteen waves from 2005-06, every school which needs it will be replaced or upgraded as part of the Department's schools capital programmes.

13.12 In addition to this massive investment in secondary schools, Budget 2005 announced a major new long term investment in primary schools. Consultation on proposals for this programme was launched in spring 2006. The vision is that over the next 15 years, at least 50% of primary schools will receive significant investment to enable them to improve standards of education, contribute to the Every Child Matters agenda, and to become hubs of local community services.

13.13 In addition to improving school buildings, the Department is also investing in Information and Communication Technology (ICT). *Harnessing Technology: Transforming Learning and Children's Services (Harnessing Technology)*, published on 15 March 2005 sets out the Government's strategy for the development of ICT in education, skills and children's services.

13.14 The Department is focusing on four transformational themes in technology:

- Personalised content – designing learning around the learner and genuinely tailoring content to each learner's needs. The Government's ambition is that every school learner has a personalised online learning space with an e-portfolio.

- Knowledge architecture – developing the potential for successful collaboration. The British Educational Communications and Technology Agency (BECTA) is leading on the development of a national digital infrastructure to integrate learning, data, connectivity and infrastructure services underpinned by national specifications and standards.

- Strategic technology provision – minimising disruption and administrative burdens in schools so they can focus on teaching and learning.

- E-maturity – enabling each school to determine how to move to the next level of technological development and understand what help is available to get there.

Further Education

13.15 Investing in the facilities required to deliver high-quality, responsive education and training is vital to achieving the ambition set out in the White Paper *Further Education: Raising Skills, Improving Life Chances* published in March 2006. The White paper sets out the reform required to ensure the further education system is the powerhouse for delivering the skills needed to sustain an advanced, competitive economy and make us a fairer society. *Realising the Potential*, Sir Andrew Foster's review of the future role of further education colleges published in November 2005, recognised that the current condition of premises and equipment affects the performance and reputation of the sector, with too many learners still studying in poor surroundings. The Department is addressing these issues through its investment.

13.16 The Further Education capital programme, administered by the Learning and Skills Council (LSC), is increasing investment in colleges to ensure the sector can offer world-class training in modern buildings with leading edge equipment. Since 2001 nearly £1 billion of grants have been approved by the LSC to support over 500 building projects in the learning and skills sector. Together with other private and public sector investment this is worth a total of nearly £3.2 billion. Around half of the estate has now been renewed. In 2005-06 the LSC provided capital grant funding totalling £384 million. Capital investment, including information and learning technology, will rise to almost £600 million per annum by 2007-08, with further additions of £100 million in 2008-09 and £250 million in 2009-10 already announced in Budget 2005. To guide investment in line with the priorities set out in the White Paper *Further Education: Raising Skills, Improving Life Chances*, regional capital strategies will be developed, ensuring there is sufficient capacity, an effective pattern of specialisation and increasing choice, access and responsiveness for learners and employers.

13.17 In line with the Department's *Five Year Strategy for Children and Learners* the Government has established a new 16-19 joint capital fund from 2006-07 to provide increased participation and improve choice and quality for the 16-19 age group. The White Paper *Further Education: Raising Skills, Improving Life Chances* builds on this by setting out plans to link Building Schools for the Future to all settings for 14-19 years olds so as to create an integrated capital strategy.

13.18 The White Paper *Further Education: Raising Skills, Improving Life Chances* also sets out how capital investment in further education, by focusing on employability, can better meet the needs of learners and employers. A network of National Skills Academies will be created as centres of national excellence for each of the major sectors of the economy. Twelve are planned for academic year 2007/08. Capital investment will also encourage specialisation through the strengthened Centres of Vocational Excellence (CoVEs) programme and the development of specialist networks.

13.19 Capital investment is also contributing to efficient delivery. The size of the Further Education estate continues to reduce as space is used more effectively and modern, more efficient buildings help reduce running costs allowing colleges to focus resource on frontline delivery.

Higher Education

13.20 Investment in higher education is contributing to the long-term financial sustainability of learning, teaching and research.

13.21 The Government's ambition is that research and development intensify in the UK (Research and Development as a proportion of gross domestic product) will rise to 2.5%. Excellence in research enables the nation's universities to compete with the best international institutions and benefit from increased business interaction.

13.22 The *Science Investment Framework 2004-14* document confirms the 2004 Spending Review settlement for science and research:

- to invest up to £90 million by 2007-08;
- to match increased contributions by charities for charity-sponsored research;
- to provide jointly with the Department for Trade and Industry (DTI) increased funding for the Higher Education Investment Fund to £110 million a year by 2007-08; and
- fund a third round of the Science Research Investment Fund (SRIF) jointly with the Office of Science and Technology (Department for Education and Skills – £200 million/OST – £300 million).

Public-Private Partnerships/Private Finance Initiatives

13.23 Public Private Partnerships (PPPs) and Private Finance Initiatives (PFI) have become well-established procurement methods for the construction of new schools and the refurbishment of existing ones. There are currently 98 signed contracts in the schools sector covering over 800 schools, with a total value of £3.5 billion. Services have started in over 60 projects with more than 120 new or substantially refurbished schools open. The total capital value for these building projects is over £490 million.

13.24 In autumn 2005 the Department published a Partnerships UK review of the operation of signed school PFI contracts. Overall, the review showed a positive picture with PFI contracts operating successfully across most of their provision and some strong examples of good delivery. In response to the review, the Department is looking to improve the process and substance of PFI contracts by providing further support for schools and authorities to securing good service delivery, for example on school catering, benchmarking prices, strong and effective helpdesk performance, and variations to contract. The Department will also be working with the private sector to improve performance and customer focus in these areas.

Remuneration Report

14. Ministers' and board members' remuneration policy

14.1 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.

14.2 The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership comprises the Chairman of the Senior Salaries Review Body (SSRB) (who acts as chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury.

14.3 The pay of the Executive Management Board is determined by the DfES Senior Civil Servants' Pay Committee within the limits and delegated authorities set by the Government in response to the annual report of the Senior Salaries Review Body. All DfES board members sit on the Committee, which is chaired by the Permanent Secretary. The Committee is responsible for monitoring the results of decisions on salary and bonuses to ensure fairness and consistency. The Permanent Secretary meets separately with a non-executive director to determine the pay of board members.

15. Summary and explanation of policy on duration of contracts, notice periods and termination payments

15.1 Performance management and reward policy for members of the Senior Civil Service is managed within the central framework set by the Cabinet Office. It allows for annual performance related base salary and bonus awards. The SCS performance bonuses are allocated from a central salary 'pot' expressed as a percentage of the SCS salary bill, which is agreed centrally each year following the SSRB recommendations. In 2005–06 this 'pot' was limited by the Cabinet Office to 6.5% of the total SCS salary bill from which individuals were awarded varying amounts, dependent on performance.The Senior Civil Service performance management and reward principles for 2006-07 can be found at: http://www.civilservice.gov.uk/management/performance/scs/index.asp

16. Details of board members' service contracts

16.1 The permanent head of the Department (the 'Permanent Secretary') is 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.

16.2 Members of the Executive Management Board are appointed by the Permanent Secretary with the agreement of the Prime Minister and the Senior Leadership Committee where appropriate, which consists of Permanent Secretaries from across Whitehall and is chaired by the Cabinet Secretary.

16.3 The contractual terms for DfES board members during 2005-06 are shown in the following table. The principles governing recruitment to, and departure from the Civil Service, including details of compensation for early termination, are set out in the *Civil Service Management Code*. No significant compensation awards were made to any former board members during 2005-06.

Contractual terms for Board members

	Date of Appointment to Position	Type of Contract	Unexpired term at 31/3/06	Details of Notice Period
Mr David BELL *Permanent Secretary*	1 January 2006	Indefinite	Not applicable	3 months in writing
Sir David NORMINGTON *Permanent Secretary* *Secretary (until 31 December 2005)*	21 May 2001	Indefinite	Not applicable	3 months in writing
Mr Peter HOUSDEN *Director General (until 23 October 2005)*	31 October 2001	Indefinite	Not applicable	3 months in writing
Mr Ralph TABBERER *Director General*	13 March 2006	Indefinite	Not applicable	3 months in writing
Mr Stephen CROWNE[1] *Acting Director General* *(until 12 March 2006)*	24 October 2005	Indefinite	Not applicable	3 months in writing
Mr Tom JEFFERY *Director General*	10 November 2003	Indefinite	Not applicable	3 months in writing
Mr Peter MAKEHAM *Director General*	27 November 2000	Indefinite	Not applicable	3 months in writing
Mrs Janice SHINER *Director General (until 17 June 2005)*	7 January 2002	Indefinite	Not applicable	3 months in writing
Mr Michael STEVENSON *Director*	9 June 2003	Indefinite	Not applicable	3 months in writing
Mrs Susan THOMAS *Director General*	11 December 2000	Indefinite	Not applicable	3 months in writing
Sir Alan WILSON *Director General*	1 August 2004	Term	14 months	3 months in writing
Mr Stephen MARSTON *Director General*	30 August 2005	Indefinite	Not applicable	3 months in writing
Mr Peter LAUENER[1] *Acting Director (until 29 August 2005)*	9 June 2005	Indefinite	Not applicable	3 months in writing

1 Temporarily promoted to an Executive Board Member position for a specific period from the date shown. Holds indefinite contract at substantive grade (DfES Senior Civil Service Pay Band 2).

17. Salaries and benefits

17.1 The table below contain details of the salaries and benefits in kind paid to Ministers and the Department's senior managers. '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 it is subject to UK taxation.

Ministers	2005-06 Salary	2005-06 Benefits in kind (rounded to nearest £100)	2004-05 Salary	2004-05 Benefits in kind (rounded to nearest £100)
Rt. Hon Ruth KELLY MP *Secretary of State (from 16 December 2004)*	£75,733	–	£21,348 *(£72,862 full year equivalent)*	–
Rt. Hon Jacqui SMITH MP *Minister of State (from 10 May 2005)*	£32,378 *(£38,854 full year equivalent)*	–	N/A	N/A
Bill RAMMELL MP *Minister of State (from 10 May 2005)*	£32,932 *(£38,854 full year equivalent)*	–	N/A	N/A
Rt. Hon Beverley HUGHES MP *Minister of State (from 10 May 2005)*	£ 34,676 *(£38,854 full year equivalent)*	–	N/A	N/A
Phil HOPE MP *Parliamentary Under Secretary of State (from 10 May 2005)*	£26,320 *(£29,491 full year equivalent)*	–	N/A	N/A
Lord Andrew ADONIS *Parliamentary Under Secretary of State (from 10 May 2005)*	£63,192 *(£70,805 full year equivalent)*	–	N/A	N/A
Maria EAGLE MP *Parliamentary Under Secretary of State (from 10 May 2005)*	£24,576 *(£29,491 full year equivalent)*	–	N/A	N/A
Margaret HODGE MBE MP *Minister of State (to 9 May 2005)*	£6,476 *(£38,854 full year equivalent)*	–	£37,796	–
Stephen TWIGG MP * *Minister of State (to 6 May 2005)*	£13,579 *(£38,854 full year equivalent)*	–	£31,332	–
Dr Kim HOWELLS MP *Minister of State (from 9 September 2004 to 9 May 2005)*	£6,476 *(£38,854 full year equivalent)*	–	£21,208 *(£37,796 full year equivalent)*	–
Lord Geoffrey FILKIN CBE * *Parliamentary Under Secretary of State (from 10 September 2004 to 9 May 2005)*	£28,268 *(£102,138 full year equivalent)*	–	£55,415 *(£100,254 full year equivalent)*	–
Ivan LEWIS MP *Parliamentary Under Secretary of State (to 9 May 2005)*	£4,915 *(£29,491 full year equivalent)*	–	£28,688	–
Derek TWIGG MP *Parliamentary Under Secretary of State (from 17 December 2004 to 9 May 2005)*	£4,915 *(£29,491 full year equivalent)*	–	£8,252 *(£28,688 full year equivalent)*	–

* Stephen Twigg and Lord Geoffrey Filkin received a one off payment for loss of office which is included in the salary disclosed.

17.2 The totals above represent 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 (£59,095, 2004-05: £57,485) 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.

Board Members	2005-06 Salary	2005-06 Benefits in kind (rounded to nearest £100)	2004-05 Salary	2004-05 Benefits in kind (rounded to nearest £100)
Mr David BELL *Permanent Secretary (from 1 January 2006)*	35-40 *(155-160 full year equivalent)*	–	N/A	N/A
Sir David NORMINGTON *Permanent Secretary (until 31 December 2005)*	135-140 *(180-185 full year equivalent)*	–	160-165	–
Mr Peter HOUSDEN *Director General (until 23 October 2005)*	95-100 *(160-165 full year equivalent)*	1,000	150-155	2,200
Mr Ralph TABBERER *Director General (from 13 March 2006)*	5-10 *(155-160 full year equivalent)*	–	N/A	N/A
Mr Stephen CROWNE *Acting Director General (from 24 October 2005 to 12 March 2006)*	40-45 *(110-115 full year equivalent)*	–	N/A	N/A
Mr Tom JEFFERY *Director General*	130-135	–	115-120	–
Mr Peter MAKEHAM *Director General*	140-145	–	135-140	–
Mrs Janice SHINER *Director General (until 17 June 2005)*	35-40 *(135-140 full year equivalent)*	–	135-140	–
Mr Michael STEVENSON *Director*	120-125	–	105-110	–
Mrs Susan THOMAS *Director General*	120-125	–	115-120	–
Sir Alan WILSON *Director General (from 1 August 2004)*	150-155	–	135-140 *(150-155 full year equivalent)*	–
Mr Stephen MARSTON *Director General (from 30 August 2005)*	65-70 *(110-115 full year equivalent)*	–	N/A	N/A
Mr Peter LAUENER *Acting Director (from 9 June 2005 to 29 August 2005)*	30-35 *(115-120 full year equivalent)*	–	N/A	N/A

17.3 The non-executive board members, Philip Augar and Christine Gilbert (appointed on 27 October 2005, as the new non-executive board member to replace Lin Homer), did not receive any remuneration from the Department.

17.4 The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. At the start of the year a Director General had an outstanding interest free advance of salary for house purchase loan. The notional interest on this loan is regarded as a taxable benefit. The Director General transferred to a new department during the year.

18. Non-cash elements of the remuneration package

18.1 The Board members remuneration packages do not contain non-cash benefits.

19. Pension benefits

Ministers

19.1 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).

19.2 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.

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

19.4 The PCPF have provided the following information in respect of DfES Ministers:

	Accrued pension at age 65 at 31/03/06 £000	Real increase in pension at age 65 £000	CETV at 31/03/06 £000	CETV at 31/03/05 £000	Real increase in CETV £000
Rt. Hon Ruth KELLY MP *Secretary of State*	0-5	0-2.5	30	21	3
Rt. Hon Jacqui SMITH MP *Minister of State (from 10 May 2005)*	0-5	0-2.5	39	31	4
Bill RAMMELL MP *Minister of State (from 10 May 2005)*	0-5	0-2.5	25	15	5
Rt. Hon Beverley HUGHES MP *Minister of State (from 10 May 2005)*	0-5	0-2.5	46	36	5
Phil HOPE MP *Parliamentary Under Secretary of State (from 10 May 2005)*	0-5	0-2.5	6	0	4
Lord Andrew ADONIS *Parliamentary Secretary of State (from 10 May 2005)*	0-5	0-2.5	12	0	6
Maria EAGLE MP *Parliamentary Secretary of State (from 10 May 2005)*	0-5	0-2.5	29	22	3
Margaret HODGE MBE MP *Minister of State (to 9 May 2005)*	5-10	0-2.5	66	65	1
Stephen TWIGG MP *Minister of State (to 6 May 2005)*	0-5	0-2.5	20	19	0
Dr Kim HOWELLS MP *Minister of State (to 9 May 2005)*	5-10	0-2.5	70	68	1
Lord Geoffrey FILKIN CBE *Parliamentary Under Secretary of State (9 May 2005)*	5-10	0-2.5	65	63	1
Ivan LEWIS MP *Parliamentary Under Secretary of State (to 9 May 2005)*	0-5	0-2.5	19	18	0
Derek TWIGG MP *Parliamentary Under Secretary of State (9 May 2005)*	0-5	0-2.5	13	12	0

19.5 The **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. 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.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

19.6 The **real increase in the value of the CETV** 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.

Board Members

19.7 Pension benefits are provided through the Civil Service Pension (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).

19.8 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.

19.9 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).

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

	Accrued pension at age 60 as at 31/03/06 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/03/06 £000	CETV at 31/03/05 £000	Real increase in CETV £000	Employer contribution to Partnership pension account (nearest £100)
Mr David BELL *Permanent Secretary* *(from 1 January 2006)*	30-35 plus 90-95 lump sum	0-2.5 plus 0-2.5 lump sum	512	393	6	–
Sir David NORMINGTON *Permanent Secretary* *(until 31 December 2005)*	60-65 plus 190-195 lump sum	2.5-5 plus 7.5-10 lump sum	1,355	1,042	66	–
Mr Peter HOUSDEN *Director General (until 21 October 2005)*	35-40 plus 115-120 lump sum	35-37.5 plus 105-107.5 lump sum	743	71	665	–
Mr Ralph TABBERER * *Director General (from 13 March 2006)*						
Mr Stephen CROWNE *Acting Director General* *(from 24 October 2005 to 12 March 2006)*	35-40 plus 105-110 lump sum	0-2.5 plus 5-7.5 lump sum	611	464	37	–
Mr Tom JEFFERY *Director General*	35-40 plus 115-120 lump sum	2.5-5 plus 7.5-10 lump sum	776	574	56	–
Mr Peter MAKEHAM Director General	55-60 plus n/a Premium	2.5-5 plus n/a Premium	1,060	821	65	–
Mrs Janice SHINER *Director General (until 17 June 2005)* **Pensions Capped**	35-40 plus n/a Premium	0-2.5 plus n/a Premium	633	520	25	–
Mr Michael STEVENSON *Director* **Pensions Capped**	0-5 plus n/a Premium	0-2.5 plus n/a Premium	60	29	18	–
Mrs Susan THOMAS *Director General*	35-40 plus 115-120 lump sum	0-2.5 plus 2.5-5 lump sum	827	638	33	–
Sir Alan WILSON *Director General*	0-5 plus n/a Premium	0-2.5 plus n/a Premium	48	17	29	–
Mr Stephen MARSTON *Director General (from 30 August 2005)*	30-35 plus 90-95 lump sum	2.5-5 plus 10-12.5 lump sum	412	282	50	–
Mr Peter LAUENER *Acting Director* *(from 9 June 2005 until 29 August 2005)*	35-40 plus 115-120 lump sum	0-2.5 plus 2.5-5 lump sum	726	582	20	–

* Mr Tabberer joined the Department on 13 March 2006. Mr Tabberer's latest pension information can be found in the annual accounts of his former employer, the Training and Development Agency for Schools.

19.11 The **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.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

19.12 The **real increase in CETV** 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.

20. Compensation payable to former senior managers

20.1 No compensation payments were made to former Executive Board Members during 2005-06.

21. Amounts payable to third parties for services senior managers

21.1 There were no monies paid to third parties for services of Executive Board Members during 2005-06.

Mr David Bell Date: 12 July 2006
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 for Education and Skills is required to prepare resource accounts for each financial year, in conformity with a HM 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.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and 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 *Government Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on an ongoing basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer 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*.

Statement on internal control

Scope of responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets, in accordance with the responsibilities assigned to me in Government Accounting. Within the Department I require each Director General to sign an annual statement covering risk management and the operation of related controls in their areas of responsibility, to supplement the regular reporting to the Board on their stewardship of risks.

Similarly, the Chief Executives of the non-departmental public bodies (NDPBs), which are part of the Departmental Group, are responsible for the maintenance and operation of the system of internal control in their individual NDPBs, and have signed a statement relating to those systems which are reproduced in the accounts of each body.

The statements from directorates and NDPBs have been scrutinised and further information sought when necessary. Internal audit has examined the internal control systems and reported upon their effectiveness and the Audit Committee has made an independent assessment of the contents of the Statement and are satisfied that it is consistent with their knowledge of the Department.

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

The purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for the year ended 31 March 2006 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 and a Risk Improvement Manager is in place. A department wide assessment of our risk management capacity and capability, using HMT's framework, was conducted to identify areas for improvement leading to an action plan to deal with them. 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 which is widely available and achieves high take-up. Guidance on the identification, assessment and management of risk in the Department is available 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 are responsible to the risk owners (Directors General) for managing risk as they have knowledge of the issues involved and can best manage risk and mitigate the potential impact. All managers are expected to systematically identify, assess and manage risk and document the underlying assumptions. Risk management guiding principles have been developed for NDPB sponsor teams for use with their sponsor bodies.

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

The key risks facing the Department have been identified and agreed by the Risk Committee, which is separate from the Board and chaired by the Director General of the Strategy & Reform Directorate. 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.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the Directors General within the Department who have responsibility for the development and maintenance of the internal control framework, Internal Audit, and comments made by the external auditors in their management letter and other reports. I have been advised by the Board, the Audit Committee and the Risk Committee.

The Department's internal auditors undertake a work programme approved by me to review risk management, internal control and governance. The Head of Internal Audit produces periodic reports on Internal Audit's findings, their assessment of risk management, corporate governance and control standards in the key corporate risks and delivery areas, and areas where action is required to address shortcomings. I meet with the Head of Internal Audit quarterly to discuss her report and consider progress in addressing major concerns. She also prepares an annual report which includes her professional opinion on the effectiveness of the overall systems of internal control and risk management within the Department. In addition, this year, Internal Audit have offered advice to Directorates within the Department to ensure issues identified through the audit work programme have been appropriately reflected in the preparation of the Directorates' annual statements.

The Audit Committee supports the Accounting Officer by offering objective advice on issues concerning the control and governance of the Department. The Audit Committee is chaired by a non-executive Board member and its role and composition is in line with the Treasury's best practice guidance. To further improve the effectiveness of our risk management processes I have recently extended the terms of reference of the Audit Committee to cover risk assurance, the Audit Committee has therefore been renamed Audit and Risk Assurance Committee.

The Department and its NDPB sponsor teams, together with the NDPBs, carried out a series of Financial Management Self Assessments with consequent action plans in order to strengthen delivery and management controls. As a consequence, we are working with a number of NDPBs to strengthen joint risk and business management arrangements. For instance, we have introduced a joint management forum with the Learning and Skills Council.

The Department takes seriously the potential impact that fraud can have on financial control and achievement of objectives, and the Fraud Sub Committee meets on a regular basis. Their role is to give assurance to the Audit Committee that the risks to the Department's business from fraud and financial irregularity are being managed and monitored effectively. A proactive approach to fraud awareness, prevention, detection and investigation is taken by the Department and a Fraud Risk Register provides part of enhanced risk assessment arrangements that have been put in place in year.

Internal Control issues

Action has been taken to address issues identified with the List 99 scheme to bar people from working within schools. The panel of independent experts, chaired by Sir Roger Singleton, is now fully in place and members are considering List 99 cases. New arrangements have recently been agreed by the Secretary of State to fast-track decisions on cases where there are no grounds to bar and no risk to children, allowing more attention to be paid to more complex cases. Steps are being taken to ensure that there is sufficient capacity in our teams who deal with List 99 cases to deal with any sustained increase in caseload. A Change Project has been put in place to deliver improvements to business processes and systems that should lead to more efficient delivery of case decisions.

A comprehensive review of the Department's risk management systems took place at the end of the year revealing that arrangements for managing risks through the change programmes were strong but that there were some weaknesses in operational areas, business continuity arrangements and our capacity to respond to threats. These are being addressed.

2005-6 has seen the first (pilot) phase of Local Area Agreements. There is a tension in the principle of pooling funding streams between the lighter monitoring regime associated with the greater flexibility in the way the funding can be spent, and the need for sufficient evidence to ensure regularity in the way the funds are spent. Our experience in this first year of operation has led to changes in the way the second year will operate that will strengthen accountability and regularity assurance for the Department. I am satisfied that the arrangements in place for 05-06 provide a reasonable level of assurance given the degree of Departmental funding that may be seen as at risk.

Recent work by the Student Loans Company (SLC) and pilot data matching by the Audit Commission's National Fraud Initiative team have raised some concerns about potentially fraudulent applications for student support. The Department, together with the SLC, Local Authorities and other relevant bodies is establishing whether those concerns are justified, and whether there are material issues which will require changes in the administration of student finance.

One NDPB faced a technical qualification of its accounts as its new Pension Fund manager was awaiting details of pension liabilities from the former manager. NAO have agreed qualification is not appropriate. There have been a number of small scale issues associated with NDPBs' financial and risk management. Whilst none of these have been major in their own right, they highlight the wider issue of the Department's relationship with its NDPBs and the way shared risks are managed. The Department has a programme of work to review the way it manages its NDPBs which is addressing this point.

Internal Audit work identified some problems in the procurement and management of consultants by some users within the Department, and a review by Her Majesty's Revenue and Customs identified some related tax issues. Problems have included shortcomings in the way some consultants have been engaged, and some incorrect use of programme budgets. Additional controls have reduced the problem and further measures are being introduced to minimise future problems in this area.

Whilst recognising the above issues, good progress has been made in resolving them and there are plans in place to further enhance financial control systems and improve practice. In particular, improvements are being made in financial management across the Department, which include ensuring that staff with the appropriate financial skills and knowledge are deployed appropriately. As Accounting Officer I am satisfied the issues do not represent a material threat to operational effectiveness, and that the Department and its NDPBs comply with the Treasury requirements on risk management, internal control and governance.

David Bell 12 July 2006
Accounting Officer for the Department for Education and Skills

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

I certify that I have audited the financial statements of the Department for Education and Skills for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report 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 to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 28-30 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Scope, the Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; 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

13 July 2006

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

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

								2005-06 £000	2004-05 £000
				Estimate			Outturn		Outturn
Request for resources	**Note**	**Gross Expenditure**	**A in A**	**Net Total**	**Gross Expenditure**	**A in A**	**Net Total**	**Net Total outturn compared with Estimate: saving/ (excess)**	**Net Total**
1	2	28,670,003	(402,395)	28,267,608	27,498,135	(389,666)	27,108,469	1,159,139	25,484,858
2	2	1,329,969	(8,465)	1,321,504	1,239,138	420	1,239,558	81,946	927,126
3	2	173,057	–	173,057	168,856	–	168,856	4,201	222,953
Total resources	3	**30,173,029**	**(410,860)**	**29,762,169**	**28,906,129**	**(389,246)**	**28,516,883**	**1,245,286**	**26,634,937**
Non-operating cost A in A				**(490,697)**			**(400,051)**	**(90,646)**	**(434,967)**

Net cash requirement 2005-06

				2005-06 £000	2004-05 £000
	Note	**Estimate**	**Outturn**	**Net Total outturn compared with Estimate: saving/ (excess)**	**Outturn**
Net cash requirement	**4**	**31,868,796**	**30,628,392**	**1,240,404**	**28,022,183**

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 2005-06 £000		Outturn 2005-06 £000	
	Note	**Income**	**Receipts**	**Income**	**Receipts**
Total	5	75,039	*75,039*	100,604	*99,910*

Descriptions of the requests for resources and explanations of variances between Estimate and outturn are given in Note 2 and in the Operating and Financial Review.

The notes on pages 38 to 65 form part of these accounts

Operating Cost Statement
for the year ended 31 March 2006

	Note	Staff Costs	Other Costs	2005-06 £000 Income	2004-05 £000 Total
Administration costs:					
Staff costs	9	151,811			152,720
Other administration costs	10		89,923		108,828
Operating income	12			(1,522)	(2,924)
Programme costs:					
Request for Resources 1:					
Staff costs	9, 11	3,770			3,288
Programme costs	11		27,252,630		25,475,721
Income	12			(390,092)	(253,779)
Request for Resources 2:					
Staff costs	9, 11	–			–
Programme costs	11		1,239,138		934,773
Income	12			420	(7,647)
Request for Resources 3:					
Staff costs	9, 11	–			–
Programme costs	11		168,856		222,953
Income	12			–	–
Totals		**155,581**	**28,750,547**	**(391,194)**	**26,633,933**
Net operating cost	3, 13			**28,514,934**	**26,633,933**

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 2006

	2005-06 £000	2004-05 £000
Net gain/(loss) on revaluation of tangible fixed assets	11,348	5,534
Net gain/(loss) on revaluation of intangible fixed assets	–	–
Recognised gains and losses for the financial year	**11,348**	**5,534**

The notes on pages 38 to 65 form part of these accounts

Balance Sheet
as at 31 March 2006

	Note		2006 £000		2005 £000
Fixed assets:					
Tangible assets	14	93,319		84,871	
Intangible assets	15	2,344		1,955	
Loans	16	15,494,238		13,001,406	
			15,589,901		**13,088,232**
Debtors falling due after more than one year	17		**582**		**2,465**
Current assets:					
Debtors	17	204,546		306,055	
Loans repayable within 1 year	16	589,560		642,703	
Cash at bank and in hand	18	27,254		4	
		821,360		948,762	
Creditors (amounts falling due within one year):					
Creditors	19	(533,850)		(584,845)	
Cash at bank and in hand	18	–		(38,442)	
		(533,850)		(623,287)	
Net current assets			**287,510**		**325,475**
Total assets less current liabilities			**15,877,993**		**13,416,172**
Provisions for liabilities and charges	20		(3,563,950)		(3,712,624)
			12,314,043		**9,703,548**
Taxpayers' equity:					
General Fund	21		12,298,006		9,698,076
Revaluation reserve	22		16,037		5,472
			12,314,043		**9,703,548**

Mr David Bell *(Accounting Officer)*

12 July 2006

The notes on pages 38 to 65 form part of these accounts

Cash Flow Statement
for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000 Restated
Net cash outflow from operating activities	23a	**(28,398,113)**	(26,012,758)
Capital expenditure and financial investment	23b	**(2,130,370)**	(1,905,901)
Payments of amounts due to the Consolidated Fund		**(107,319)**	(105,596)
Financing	23d	**30,701,494**	27,911,419
Increase/(decrease) in cash in the period	23e	**65,692**	(112,836)

The introduction of the revised cash flow format as per the *Financial Reporting Manual* has resulted in a reanalysis of the 2004-05 cash flow statement, requiring the restatement of the comparative figures.

The notes on pages 38 to 65 form part of these accounts

Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2006

			2005-06 £000			2004-05 £000 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; releasing potential in people to make the most of themselves; and achieving excellence in standards of education and levels of skills.

	Gross	Income	Net	Gross	Income	Net
Objective 1	2,068,945	(986)	2,067,959	1,699,586	(9,548)	1,690,038
Objective 2	8,078,892	(3,524)	8,075,368	7,326,972	(4,098)	7,322,874
Objective 3	7,792,093	(10,186)	7,781,907	7,449,691	(7,123)	7,442,568
Objective 4	3,277,007	(14,353)	3,262,654	3,052,370	(12,500)	3,039,870
Objective 5	7,689,191	(362,145)	7,327,046	7,369,664	(231,081)	7,138,583
Net Operating Costs	28,906,128	(391,194)	28,514,934	26,898,283	(264,350)	26,633,933

The Department's objectives are as follows:

Objective 1 – Safeguard children and young people, improve their life outcomes and general well-being, and break cycles of deprivation.

Objective 2 – Raise standards and tackle the attainment gap in schools.

Objective 3 – All young people to reach 19 ready for skilled employment or higher education.

Objective 4 – Tackle the adult skills gap.

Objective 5 – Raise and widen participation in higher education.

The 2004-05 statement of operating costs by objective apportioned the income and expenditure between the three main DfES objectives. The 2005-06 statement has apportioned operating costs against the five objectives introduced in the Five Year Strategy for Children and Learners and as a result the 2004-05 comparative figures have been restated to match the updated objectives. See note 24 for further analysis of expenditure and capital employed by objective.

The notes on pages 38 to 65 form part of these accounts

Notes to the Departmental Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Statement of Operating Costs by Departmental Aim and Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the *FReM* 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 considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Basis of preparation

The Department has a number of executive Non-Departmental Public Bodies (NDPBs). However, as they are deemed to be outside the Departmental boundary as defined in the *FReM* (chapter 1.5), their results have not been consolidated into these accounts.

1.3 Tangible fixed assets

The minimum level for capitalisation of capital expenditure as a tangible fixed asset is £2,500. In the case of IT equipment and furniture all items recorded as capital expenditure are capitalised and if they fall below the £2,500 threshold they are bulked together and recorded as bulk assets. The asset value on capitalisation is measured at cost plus any costs, such as installation, directly attributable to bringing them into working condition.

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

1.4 Depreciation

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives. Freehold land is not depreciated.

Asset lives are normally in the following ranges:

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

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

1.5 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,500 or more is incurred. The software licences are amortised over the shorter of the licence period or its useful economic life limited to a range of 2–5 years. The value of the intangible assets has been stated at current cost, using appropriate indices published by the Office for National Statistics.

Notes to the Departmental Resource Accounts *(continued)*

1.6 Investments

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

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

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

Loans are issued to voluntary schools to fund capital projects. Schools are charged interest in accordance with HM Treasury lending rates. The value shown on the Balance Sheet represents the principal loan value outstanding at 31 March.

Note 16 contains further information on the loans. See note 1.16 for the accounting policies relating to student loan provisions.

1.7 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.

1.8 Operating income

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

1.9 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or programme follows the definition of administration costs set out by HM Treasury in its 'Consolidated Budgeting Guidance'.

Administration costs reflect the costs of running the Department as defined under the administration cost control regime, together with associated operating income. Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department. The Department has authority from HM Treasury to treat certain staff costs as programme costs where they relate directly to programme delivery, i.e. the administration of the Special Educational Needs and Disability Tribunals.

1.10 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury currently 3.5% on the average carrying amount of all assets less liabilities, except for;

- Consolidated Fund balances and Office of the Paymaster General bank balances where the charge is nil;
- Student loans provisions where the charge is 2.2% in line with the HM Treasury long term provisions.

1.11 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.

Notes to the Departmental Resource Accounts *(continued)*

1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and non-contributory except in respect of dependants' benefits. 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.

1.13 Leases

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

1.14 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, and for compensation payments payable to employees who take early severance. The Department provides for the costs when the early departure programme has been announced and is binding on the Department. In 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.

1.15 Grants payable

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

1.16 Provisions

The Department has created provisions for the following liabilities:

- Early departure costs.
- Student support costs related to student loans.
- Property costs.
- Partnerships for Schools payments.
- Centre for British Teachers pension costs.

The early departure costs provision is based on the future costs of those staff who have taken early release from the date they leave the Department up to the date they retire and the pension costs are met from the PCSPS. The cash flows have been discounted using the HM Treasury discount rate of 2.2% to reflect the current value of the liabilities.

The student support provisions are based on the Department's best estimate of the amount and timing of the future liabilities to the government of subsidising interest on loans and potential loan write offs. The Department's accounting policy for accounting for the interest subsidy provision follows the Financial Reporting Advisory Board instructions. Given the long term nature of both provisions, the time value of money is significant, the provisions are discounted using the HM Treasury discount rate of 2.2% in real terms.

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

The property provision recognises the liabilities related to properties where the lease could not be reassigned following the closure of the TECs. The provision has been extended to include other onerous lease contracts for properties used by former NDPBs closed as a result of changes in programme delivery. The disposal of the properties is being managed by Department's Corporate Services specialists, who anticipate that all leases

Notes to the Departmental Resource Accounts *(continued)*

will either be reassigned or expire by 2018. The size of the provision is based on the costs up to the planned disposal date of individual properties, net of any contributions towards costs. The estimated cash flows have been discounted using the HM Treasury discount rate of 2.2%.

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

The Centre for British Teachers (CfBT) provision recognises the liability to fund the pension deficit owed to the London Pensions Fund Authority in relation to the CfBT staff affected by the termination of the contract between DfES and CfBT. The provision is based on the current best actuarial estimate of the potential shortfall. The pension fund is being revalued by the Government Actuary's Department and the actual liability will be reported during 2006-07.

1.17 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, but which have been reported to Parliament in accordance with the requirements of *Government Accounting*.

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.

1.18 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.

2. Analysis of net resource outturn by Estimate Line

							2005-06 £000		2004-05 £000
						Outturn	Estimate		
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior year outturn
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									
Central Government Spending									
A Activities to support all functions	241,063	31,758	11,672	284,493	(8,853)	275,640	365,029	89,389	293,837
B Support for Schools, and Teachers not paid through LEAs		9,831	906,789	916,620	(1,183)	915,437	1,049,807	134,370	822,189
C Support to Children and Families not paid through LAs		26,952	640,182	667,134	(1,575)	665,559	669,173	3,614	720,566
D Higher Education		8,258	81,014	89,272	(109)	89,163	117,798	28,635	127,638

Notes to the Departmental Resource Accounts *(continued)*

						2005-06 £000			2004-05 £000
						Outturn	Estimate		
	Admin	**Other current**	**Grants**	**Gross resource expenditure**	**A in A**	**Net Total**	**Net Total**	**Net Total outturn compared with Estimate**	**Prior year outturn**
E Higher Education Receipts from DTI				–	(365,701)	(365,701)	(365,632)	69	(227,643)
F Further Education, Adult Learning and Skills for Lifelong Learning and International Programmes		76,912	315,358	392,270	(16,912)	375,358	422,493	47,135	392,321
G Support for Students in Higher Education			1,359,928	1,359,928		1,359,928	1,370,413	10,485	1,109,394
H Compensation to former College of Education Staff			11,239	11,239		11,239	11,361	122	11,249
Support for Local Authorities									
I Current Grants for LEAs to Support Schools and Teachers			3,933,063	3,933,063		3,933,063	3,864,798	(68,265)	3,358,290
J Capital Grants for LEAs to Support Schools			2,399,902	2,399,902	(51)	2,399,851	2,550,516	150,665	2,357,636
K Higher Education Fees and Awards through LEAs			10,996	10,996		10,996	10,600	(396)	11,057
L Current Grants to LAs to Support Children and Families			299,289	299,289		299,289	305,316	6,027	203,315
*Of which LAA**			*56,947*	*56,947*		*56,947*			
M Capital Grants to LAs to Support Children and Families			18,876	18,876		18,876	29,812	10,936	13,319
Central Government Spending									
N Education Maintenance Allowance's not through LEAs				–		–	–	–	188,657

Notes to the Departmental Resource Accounts *(continued)*

						2005-06 £000 Outturn	Estimate		2004-05 £000
	Admin	**Other current**	**Grants**	**Gross resource expenditure**	**A in A**	**Net Total**	**Net Total**	**Net Total outturn compared with Estimate**	**Prior year outturn**
Support for Local Authorities									
O Education Maintenance Allowance's through LEAs				–		–	–	–	50,567
P Grant in Aid to NDPBs supporting Schools			766,286	766,286		766,286	746,029	(20,257)	693,858
Q Grant in Aid to NDPBs supporting Children and Families Schools			102,926	102,926		102,926	104,000	1,074	220,814
R Loans to Students and Grant in Aid to NDPBs supporting Higher Education			6,193,778	6,193,778	4,718	6,198,496	6,248,197	49,701	6,084,911
S Grant in Aid to NDPBs supporting Further Education, Adult Education and Skills and Lifelong Learning		672	10,051,391	10,052,063		10,052,063	10,767,898	715,835	9,052,883
Total	**241,063**	**154,383**	**27,102,689**	**27,498,135**	**(389,666)**	**27,108,469**	**28,267,608**	**1,159,139**	**25,484,858**

Request for resources 2 – Promoting the physical, intellectual and social development of babies and young children through Sure Start, Early Years provision and Childcare

	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior year outturn
Central Government Spending									
A Sure Start Administration Costs and Current Grants		757	484,310	485,067	420	485,487	476,450	(9,037)	494,445
Support for Local Authorities									
B LA Current grants			488,276	488,276		488,276	522,290	34,014	288,377
*Of which LAA**			*47,785*	*47,785*		*47,785*			–
C LA Capital grants			265,795	265,795		265,795	322,764	56,969	144,304
Total	**–**	**757**	**1,238,381**	**1,239,138**	**420**	**1,239,558**	**1,321,504**	**81,946**	**927,126**

Notes to the Departmental Resource Accounts *(continued)*

						2005-06 £000			2004-05 £000
						Outturn	Estimate		
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior year outturn
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									
Central Government Spending									
A Children's Fund		3,163	36,524	39,687		39,687	42,753	3,066	222,953
Support for Local Authorities									
B LA Current grants			129,169	129,169		129,169	130,304	1,135	
Total	**–**	**3,163**	**165,693**	**168,856**	**–**	**168,856**	**173,057**	**4,201**	**222,953**
Resource Outturn	**241,063**	**158,303**	**28,506,763**	**28,906,129**	**(389,246)**	**28,516,883**	**29,762,169**	**1,245,286**	**26,634,937**

* Included in the above totals are Local Area Agreement funding payments to pilot areas totalling £104.7 million. Local Area Agreements are voluntary, three year agreements between central government and local authorities and their partners. They will deliver national outcomes in a way that reflects local priorities using a number of specific funding streams that can be pooled to find local solutions to local problems. LAA payments in respect of Children's Fund programmes are included in RfR1 Line L. From 2006-07 the DfES funding will be channelled via the Department for Communities and Local Government.

Explanation of variances

RfR1 Outturn on the Department's core programmes is £1.2 billion (4%) less that the budget in the Supply Estimate. The largest variance in value is the £716 million (3%) underspend on grant in aid payments in Estimate Line S. This underspend occurred because: a) The LSC did not require £282 million funding due to changes in the European Social Fund receipts, debtors and provisions compared to the LSC's planned activity; and b) due to technical rules relating to the Supply Estimate, the Department's cash requirement could not be reduced in the Spring Supplementary. There is also a large variance in monetary terms on Estimate Line J – capital grants for LEAs to support schools – although the £152 million underspend is within 6% of the budget. This is the first year of the Building Schools for the Future Programme, which consists of projects typically in excess of £100 million. There has been slippage on delivery of some projects. Measures are being taken to bring forward other projects, and as the programme progresses there should be a reduction of slippage in project delivery.

RfR2 The £82 million (6%) underspend on Sure Start was due to lower than anticipated funding to local authority led Sure Start Local Partnerships.

RfR3 The Children's Fund outturn is £4 million lower than the Supply Estimate budgets. This is due to slippage on some Local Network projects.

Detailed explanations of the variances are given in the Operating and Financial Review

Notes to the Departmental Resource Accounts *(continued)*

3. Reconciliation of outturn to net operating cost and against Administration Budget

3(a) Reconciliation of net resource outturn to net operating cost

	Note	2005-06 £000 Outturn	2005-06 £000 Supply Estimate	2005-06 £000 Outturn compared with estimate	2004-05 £000 Outturn
Net Resource Outturn	2	28,516,883	29,762,169	1,245,286	26,634,937
Prior period adjustments					
Non-supply income (CFERs)	5	(1,949)	–	1,949	(1,004)
Non-supply expenditure	21				
Net operating cost		28,514,934	29,762,169	1,247,235	26,633,933

3(b) Outturn against final Administration Budget

	2005-06 £000 Budget	2005-06 £000 Outturn	2004-05 £000 Outturn
Gross Administration Budget	255,593	241,063	261,548
Income allowable against the Administration Budget	(3,508)	(1,522)	(2,924)
Net outturn against final Administration Budget	252,085	239,541	258,624

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/(excess) £000
Resource Outturn	2	29,762,169	28,516,883	1,245,286
Capital				
Acquisition of fixed assets	14, 15	10,254	7,968	2,286
Investments		–		
Loans issued in year	16	2,641,000	2,613,401	27,599
Repurchase of sold loans	16	–	53	(53)
Non-operating A in A				
Proceeds of fixed asset disposals	7	(575)	(11)	(564)
Repayment of loans	7	(490,122)	(400,040)	(90,082)
Transfer of function	21	–	–	–
Accruals adjustments				
Non-cash items	10	(111,832)	(531,729)	419,897
Changes in working capital other than cash		49,937	13,294	36,643
Changes in creditors falling due after more than one year		–		–
Use of provisions		7,965	408,573	(400,608)
Excess cash receipts surrenderable to the Consolidated Fund				
Net cash requirement		**31,868,796**	**30,628,392**	**1,240,404**

The Department has stayed within £1.2 billion (4%) of its cash requirement limit. This is mainly due to the £1.2 billion underspend on the net resources limit. Despite some large variances on the different types of non-cash items (due to different classification in the Supply Estimate), the overall total non-cash items are within £56 million of the planned level of activity. Further information on the variances can be found in the financial performance section of the Operating and Finance Review.

Notes to the Departmental Resource Accounts *(continued)*

5. Analysis of income payable to the Consolidated Fund

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

		Forecast 2005-06		Outturn 2005-06	
	Notes	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess A in A:					
- relating to 2004-05					
- relating to 2005-06					
Other operating income and receipts not classified as A in A				1,949	*1,764*
		–	–	1,949	*1,764*
Non-operating income and receipts – excess A in A					
Other non-operating income and receipts not classified as A in A				98,655	*98,146*
Other amounts collectable on behalf of the Consolidated Fund		75,039	*75,039*		
Excess cash surrenderable to the Consolidated Fund					
Total income payable to the Consolidated Fund		75,039	*75,039*	100,604	*99,910*

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2005-06 £000	2004-05 £000
Operating income		391,194	264,350
Adjustments for transactions between RfRs		–	–
Gross income	12	391,194	264,350
Income authorised to be appropriated-in-aid		389,245	263,346
Operating income payable to the Consolidated Fund	5	1,949	1,004

7. Non-operating income – classified as A in A

	2005-06 £000	2004-05 £000
Principal repayments of student loans	399,916	434,869
Principal repayments of loans to schools	124	34
Proceeds from disposal of fixed assets	11	64
Non-operating income – classified as A in A	400,051	434,967

8. Non-operating income – not classified as A in A

	Income £000	Receipts £000
Student loans interest repayments	100,236	98,146

The Department received £98,146,000 during the year for repayments of interest on student loans which, under HM Treasury rules, are not retained by the Department. As a result they are not recognised as income in the Operating Cost Statement and are paid to the Consolidated Fund.

Notes to the Departmental Resource Accounts *(continued)*

9. Staff numbers and related costs

Staff costs consist of:

	2005-06 £000 Total	Permanently employed staff	Other[1]	Ministers	Special advisors	2004-05 £000 Total
Wages and salaries	**122,482**	118,478	3,576	354	74	**128,139**
Social security costs	**9,957**	9,837	82	31	7	**10,334**
Other pension costs	**23,142**	22,953	171	–	18	**17,535**
Sub Total	**155,581**	**151,268**	**3,829**	**385**	**99**	**156,008**
Charged to admin staff costs	151,811	147,542	3,785	385	99	152,720
Charged to programme costs	3,770	3,726	44	–	–	3,288
	155,581	**151,268**	**3,829**	**385**	**99**	**156,008**
Less recoveries in respect of outward secondments	**(1,487)**	(1,487)	–	–	–	(1,632)
Total Net Costs	**154,094**	**149,781**	**3,829**	**385**	**99**	**154,376**

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

All early departure costs are now included within other administration (note 10) rather than staff costs.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Department for Education and Skills is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £23,092,244 were payable to the PCSPS (2004-05: £17,529,105) at one of four rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands (the rates in 2004-05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in the range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £49,412.50 (2004-05 £5,640.46) 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% (2004-05: 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £3,319.44 (2004-05: £1,513.34), 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 £3,284.34. Contributions prepaid at that date were nil.

1 person (2004-05: 9 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1,277 (2004-05: £76,571).

Notes to the Departmental Resource Accounts *(continued)*

Average number of persons employed

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

	2005-06					2004-05
					Number	Restated Number
Objective	**Total**	**Permanent staff**	**Others**[1]	**Ministers**	**Special advisors**	**Total**
1	**1,225.2**	1,178.0	45.0	2.0	0.2	1,397.0
2	**1,194.7**	1,145.0	48.0	1.0	0.7	1,244.0
3	**742.2**	724.0	17.0	1.0	0.2	894.0
4	**291.2**	281.0	8.0	2.0	0.2	303.0
5	**429.7**	419.0	9.0	1.0	0.7	509.0
Number of staff charged to admin costs	**3,883.0**	3,747.0	127.0	7.0	2.0	4,347.0
Number of staff charged to Programme expenditure Objective						
1	62.0	62.0				65.0
2	4.0	4.0				–
3	4.0	4.0				–
4	4.0	4.0				–
5	4.0	4.0				–
	78.0	78.0				65.0
TOTAL	**3,961.0**	3,825.0	127.0	7.0	2.0	4,412.0

The Department's objectives are as follows:

Objective 1 – Safeguard children and young people, improve their life outcomes and general well-being, and break cycles of deprivation.

Objective 2 – Raise standards and tackle the attainment gap in schools.

Objective 3 – All young people to reach 19 ready for skilled employment or higher education.

Objective 4 – Tackle the adult skills gap.

Objective 5 – Raise and widen participation in higher education.

The 2004-05 comparative figures have been restated to match the updated objectives. In 2004-05 the Department only had 3 objectives, rather than 5.

Notes to the Departmental Resource Accounts *(continued)*

10. Other administration costs

	Note	£000	2006 £000	£000	2005 £000
Rentals under operating leases:					
Hire of plant and machinery		423		758	
Other operating leases		17,908	18,331	19,080	19,838
Non-cash items (administration costs note a):					
Depreciation of fixed assets					
Civil Estate		1,373		864	
Other tangible fixed assets		6,353		7,272	
Amortisation of intangible fixed assets		444		774	
Permanent diminution in fixed asset values		1,688		706	
Loss on disposal of fixed assets		60		46	
Cost of capital charge:					
Civil Estate		1,262		1,079	
Other items		(216)		168	
Auditor's remuneration		300		300	
Early departure provisions:	20				
Provided for in year		7,431		18,474	
Change in interest rate		672		–	
Provision not required written back		–		(595)	
Unwinding of discount		462		662	
Total administration non-cash items			19,829		29,750
Professional fees			6,959		8,318
Travel and subsistence			7,192		7,684
Consultancy			4,500		4,895
Rates and service charges			5,877		5,714
Computers and telecoms costs			7,821		8,378
Utilities			1,673		1,251
Advertising and publicity			749		631
Other office services			8,919		7,926
Early departure costs not provided for			(35)		8,329
Other expenditure			8,108		6,114
Total			**89,923**		**108,828**

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.

Note a – the total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Note 4 and in the Reconciliation of Operating Costs to Operating Cash Flows in Note 23a comprises:

	2005-06 £000	2004-05 £000
Other administration costs – non-cash items (as above)	19,829	29,750
Programme non-cash costs charged to operating expenditure (see Note 11)	511,904	941,245
Less non-cash income		
Profit on sale of fixed assets	(4)	(4)
Total non-cash transactions	**531,729**	**970,991**

Notes to the Departmental Resource Accounts *(continued)*

11. Programme costs

	Note	2005-06 £000	2004-05 £000
Current grants and other current expenditure		28,137,736	25,677,903
Research and development costs		14,754	17,587
Non-cash items			
Cost of capital on programmes		236,703	312,002
Depreciation		550	545
Permanent diminution in fixed asset values			24
Provisions:	20		
Provided in year		631,608	977,175
Change in interest rate		(435,846)	–
Release of provision		(6,952)	(420,189)
Unwinding of discount		67,249	103,487
Student loans capitalised interest	16	(351,887)	(270,128)
Student loans domicile adjustment	16	6,587	(39)
Admin charges applied to student loans	16	–	(1,598)
Repayment of Teachers' Loans	16	14,064	21,394
Student loan interest subsidy inflation adjustment	21	349,828	218,572
Total programme costs		28,664,394	26,636,735

12. 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 6). In 2005-06, all operating income not classified as Appropriations in Aid was within public expenditure.

	RfR 1	RfR 2	RfR 3	2005-06 £000 Total	2004-05 £000 Total
Administration income:					
Fees and charges to external customers				–	–
Profit on disposal on assets	(4)			**(4)**	(4)
Rental income:				**–**	
- from within DfES Group				**–**	–
- from Other Govt Depts				**–**	–
- from external tenants	(234)			**(234)**	(1,488)
Other miscellaneous	(1,284)			**(1,284)**	(1,432)
	(1,522)	–	–	**(1,522)**	(2,924)
Programme income:					
Income from DTI for payment to HEFCE	(365,701)			**(365,701)**	(227,643)
Rental income from within DfES group	(5,346)			**(5,346)**	(5,157)
Other income	(17,096)	420		**(16,676)**	(27,622)
CFER miscellaneous income	(1,949)			**(1,949)**	(1,004)
	(390,092)	420	–	**(389,672)**	(261,426)
Total	(391,614)	420	–	**(391,194)**	(264,350)

Notes to the Departmental Resource Accounts *(continued)*

13. Analysis of net operating cost by spending body

	£000 Estimate	2005-06 £000 Outturn	2004-05 £000 Outturn
Spending body:			
Grant in aid to Non-Departmental Public Bodies (NDPBs):			
Adult Learning Inspectorate (ALI)	26,100	25,830	26,655
British Educational Communications and Technology Agency (BECTA)	12,500	13,547	11,600
Children and Family Court Advisory and Support Services (CAFCASS)	101,000	100,865	102,543
Children's Commissioner (Ccom)	3,000	2,061	–
Higher Education Funding Council for England (HEFCE)	6,625,000	6,572,856	6,044,764
Investors in People UK Ltd (IiP UK)	5,700	5,652	5,235
Learning and Skills Council (LSC)	10,516,900	9,818,239	8,956,913
National College of School Leadership (NCSL)	93,600	80,419	114,687
Office for Fair Access (OFFA)	400	385	500
Partnerships for Schools (PfS)	3,500	4,483	3,477
Qualifications and Curriculum Authority (QCA)	151,000	133,894	118,271
Sector Skills Development Agency (SSDA)	67,400	67,608	64,080
Student Loans Company Ltd (SLC)	58,800	49,990	41,563
Training and Development Agency for Schools (TDA)	634,200	667,510	564,093
Local Authorities	7,736,400	7,545,316	6,483,866
Other DfES	3,726,669	3,426,279	4,095,686
Net Operating Cost	**29,762,169**	**28,514,934**	**26,633,933**

14. Tangible fixed assets

	Land & Buildings £000	Plant & Machinery £000	Information Technology £000	Transport Equipment £000	Furniture & Fittings £000	Total £000
Cost or valuation						
At 1 April 2005	62,998	390	31,578	583	16,042	111,591
Additions	–	119	6,464	44	357	6,984
Disposals	–	(57)	(3,231)	(77)	(831)	(4,196)
Revaluations	16,978	(4)	(2,972)	9	185	14,196
At 31 March 2006	**79,976**	**448**	**31,839**	**559**	**15,753**	**128,575**
Depreciation						
At 1 April 2005	6,081	229	13,228	132	7,050	26,720
Provided in year	1,923	44	4,113	76	2,120	8,276
Disposals	–	(56)	(3,231)	(17)	(821)	(4,125)
Revaluations	5,778	(1)	(1,457)	2	63	4,385
At 31 March 2006	**13,782**	**216**	**12,653**	**193**	**8,412**	**35,256**
Net book value at 31 March 2006	**66,194**	**232**	**19,186**	**366**	**7,341**	**93,319**
Net book value at 31 March 2005	**56,917**	**161**	**18,350**	**451**	**8,992**	**84,871**
Asset financing:						
Owned	66,194	232	19,186	366	7,341	93,319
Net book value at 31 March 2006	**66,194**	**232**	**19,186**	**366**	**7,341**	**93,319**

All properties on the balance sheet are freehold properties and have been professionally revalued by the Department's surveyors, Donaldson's in October 2005. The valuations for each property are:

European School, Culham	£6,000,000
Middlesbrough (former Skillcentre)	£500,000
Moorfoot, Sheffield	£17,300,000
Mowden Hall, Darlington	£5,000,000
Castle View House, Runcorn	£9,900,000
Sheffield Nursery	£290,000
Wales Bar (document storage) Sheffield	£495,000

Notes to the Departmental Resource Accounts *(continued)*

Revaluations of the land and buildings have been carried out on an existing use basis in accordance with the RICS Appraisal and Valuation Manual.

At the end of the year all 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.

Included in the land and buildings net book value is £25.3 million for the National College of School Leadership. As this property is used by the NDPB, and is not used for the administration of the Department, the cost of capital and depreciation charges are classified as programme costs. This property has not been professionally revalued during the year and will be due for revaluation during 2008.

15. Intangible fixed assets

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

	2005-06 £000	2004-05 £000
Cost or valuation		
At 1 April	4,308	3,094
Additions	984	1,381
Disposals	–	(4)
Revaluations	(517)	(163)
At 31 March	**4,775**	**4,308**
Amortisation		
At 1 April	2,353	1,677
Charged in year	444	774
Disposals	–	–
Revaluations	(366)	(98)
At 31 March	**2,431**	**2,353**
Net book value at 31 March	**2,344**	**1,955**

All intangible assets were revalued in March 2006 on the basis of monthly indices provided by the Office for National Statistics.

16. Loans

	Students £000	Schools £000	Total £000
Balance at 1 April 2005	13,000,654	752	13,001,406
Amounts previously transferred to current assets 2004-05	642,667	36	642,703
Total loans outstanding at 1 April 2005	**13,643,321**	**788**	**13,644,109**
Opening balance adjustment	(6,587)		(6,587)
Repurchase of sold loans	53		53
New loans	2,612,651	750	2,613,401
Interest added	351,887		351,887
Repayments	(500,152)	(124)	(500,276)
Write offs	(4,725)		(4,725)
Repayment of Teachers' Loans	(14,064)		(14,064)
	16,082,384	**1,414**	**16,083,798**
Loans repayable in 12 months transferred to current assets	589,500	60	589,560
Balance at 31 March 2006	**15,492,884**	**1,354**	**15,494,238**

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

Notes to the Departmental Resource Accounts *(continued)*

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 non-repayment of loans and the interest subsidy costs (see Note 20).

The SLC recovers the cost of additional administration charges from borrowers who are in default. This is a non- interest bearing element of the loan which was previously reported as part of the DfES loans balance. Following legal advice on the ownership of the administration charge debt the accounting treatment was changed during the year to transfer the recoverable administration charges to the SLC.

The Schools Loans above are loans issued to voluntary schools for capital projects under Schedule 3 of the Schools Standards & Framework Act 1998. Interest is charged in accordance with the HM Treasury lending rates. At 31 March 2006 there were 3 outstanding loans (5 in 2004-05), and all balances are scheduled for repayment by 2025.

17. Debtors

17(a) Analysis by type

	2005-06 £000	2004-05 £000
Amounts falling due within one year:		
Trade debtors	20,657	26,866
VAT	–	17,105
Deposits and advances	1,651	1,956
Other debtors	1,953	3,873
Prepayments and accrued income	180,285	198,676
Amounts due from the Consolidated Fund for Supply but undrawn at year end	–	57,579
	204,546	**306,055**
Amounts falling due after more than 1 year:		
Prepayment of early departure pre-funding	**582**	**2,465**
	205,128	**308,520**

Included within the debtors above is £8,545,000 (2004-05: £7,850,000) that will be due to the Consolidated Fund once the debts are collected, of which £8,359,000 relates to accrued interest on student loans repayments.

17(b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000
Balances with other central government bodies	76,193	145,490	582	2,465
Balances with local authorities	98,702	119,829	–	–
Balances with NHS Trusts	14	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Sub total – intra-government balances	**174,909**	**265,319**	**582**	**2,465**
Balances with bodies external to government	29,637	40,736	–	–
Total debtors at 31 March	**204,546**	**306,055**	**582**	**2,465**

18. Cash at bank and in hand

	2005-06 £000	2004-05 £000
Balance at 1 April	(38,438)	74,398
Net change in cash balances	65,692	(112,836)
Balance at 31 March	**27,254**	**(38,438)**
The following balances at 31 March are held at:		
Office of HM Paymaster General	26,598	(38,442)
Commercial banks and cash in hand	656	4
Balance at 31 March	**27,254**	**(38,438)**

Notes to the Departmental Resource Accounts *(continued)*

19. Creditors

19(a) Analysis by type

	2005-06 £000	2004-05 £000
Amounts falling due within one year:		
VAT	1,870	–
Other taxation and social security	4,168	3,996
Trade creditors	34,851	428,896
Other creditors	2,380	1,956
Accruals and deferred income	454,783	123,006
Amounts issued from the Consolidated Fund for Supply but not spent at year end	15,522	–
Consolidated Fund extra receipts due to be paid to the Consolidated Fund		
received	11,731	19,141
receivable	8,545	7,850
	533,850	**584,845**

As a result of faster closing there has been an increase in the use of estimated accruals in 2005-06. This has led to a decrease in the number and value of trade creditors and an increase in accruals in comparison to 2004-05.

19(b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000
Balances with other central government bodies	81,691	71,219	–	–
Balances with local authorities	139,499	245,345	–	–
Balances with NHS Trusts	90	5,475	–	–
Balances with public corporations and trading funds	1,610	8	–	–
Sub total – intra-government balances	**222,890**	**322,047**	–	–
Balances with bodies external to government	310,960	262,798	–	–
Total creditors at 31 March	**533,850**	**584,845**	–	–

20. Provisions for liabilities and charges

	Early departure costs £000	Student loans write off £000	Student loans interest subsidy £000	Student loans debt sale subsidy £000	Property provision £000	Partnerships for Schools (PfS) £000	CfBT pension provision £000	Total £000
Balance at 1 April 2005	37,899	1,564,182	1,619,221	466,626	2,196	7,500	15,000	3,712,624
Impact of change in the discount rate*	672	–	(492,903)	56,890	167	–	–	(435,174)
Provided in year	7,431	169,863	444,133	–	8,332	6,280	3,000	639,039
Provisions not required written back	–	–	–	(6,952)	–	–	–	(6,952)
Provisions utilised in the year	(15,611)	(4,725)	(354,842)	(36,895)	(1,225)	–	–	(413,298)
Unwinding of discount	462	–	55,679	11,518	52	–	–	67,711
Balance at 31 March 2006	**30,853**	**1,729,320**	**1,271,288**	**491,187**	**9,522**	**13,780**	**18,000**	**3,563,950**

* The HM Treasury introduced a new discount rate on 1 April 2005. All discounted provisions have been revalued to take into account the impact of changing the discount rate from 3.5% to 2.2%.

Early departure costs

The Department meets the additional costs of benefits beyond normal PCSPS benefits in respect of employees who retire early, and compensation payments payable to employees who take early severance. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury cost of capital rate of 2.2% in real terms. The provision has been revalued and increased by £672,000 to take account of the change in the discount rate.

There are additional discounted early departure costs of £1.3m which are funded under the 80/20 scheme approved by the Treasury.

Notes to the Departmental Resource Accounts *(continued)*

Student loans

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

Student loans are effectively interest free as students are only charged interest equivalent to the rate of inflation. The Department meets the costs resulting from difference between the interest paid by students and the cost of capital on loans, which is known as the interest subsidy. The interest subsidy provision meets the cost of the interest over the life of the loan and is offset by the annual interest subsidy charge. The Department increases the provision based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions. The lower discount rate brings the Department's cost of capital closer to the amount of interest charged to students, and as a consequence there has been a reduction in the amount of subsidy. In addition to reducing the provision provided in year, the opening balance has been revalued, resulting in a £492.9 million adjustment to reflect the lower future cost of subsidising the loans.

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. The provision has been revalued to increase the provision by £56.9 million to reflect the lower discount rate.

Property provision

On the closure of the TECs certain properties were re-assigned to the Secretary of State. The Department created a TEC property provision to meet the future lease costs until the anticipated disposal of the last property in 2018. During 2005-06 this provision has been extended to include additional property leases for buildings used by NDPBs that closed as a result of programme policy changes (e.g. Skillcentres) which had not been provided for in earlier years. The last of the additional leases will terminate in 2015. As a result the provision had increased by an additional £7.96 million which has been included in the in-year provision in the above table. The provision has increased by a further £372,000 for former TEC properties. In addition to these changes the provision has been revalued to increase the provision by £167,000 to reflect the lower discount rate.

Partnerships for Schools

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

Centre for British Teachers Pensions

The DfES had a contract with Centre for British Teachers (CfBT) for the delivery of the National Literacy, National Numeracy and Key Stage 3 Strategies. Under the terms of the contract CfBT were obliged to use the London Pensions Fund Authority to provide a pension service for staff employed by CfBT. The triennial revaluation of the local government pension contributions to the fund identified an actuarial shortfall in the pension fund in relation to the CfBT field force staff. Subsequently the Strategies contract underwent a re-tendering exercise and CfBT was not awarded the new contract. The staff were transferred under TUPE to the new contractor on 1 April 2005, and the Department accepted liability to meet the pension deficit. The deficit is a short term liability and will be fully paid by the end of 2006-07.

Notes to the Departmental Resource Accounts *(continued)*

21. General Fund

The General Fund represents the total assets less liabilities, to the extent that the total is not represented by other reserves and financing items.

	£000	2005-06 £000	£000	2004-05 £000
Balance at 1 April		9,698,076		7,888,246
Parliamentary funding				
Drawn Down	30,643,915		27,903,025	
Deemed Supply			61,579	
		30,643,915		27,964,604
Net Transfer from Operating Activities				
Net operating cost for the year	(28,514,934)		(26,633,933)	
CFERs payable to the Consolidated Fund	(102,185)		(110,788)	
		(28,617,119)		(26,744,721)
Year End Adjustment				
Supply creditor/(debtor)		(15,522)		57,579
Non-cash charges:				
Cost of capital	237,749		313,249	
Auditor's remuneration	300		300	
Student loan interest subsidy inflation adjustment	349,828		218,572	
Transfer from the revaluation reserve (Note 22)	783		248	
Assets sold as CFER	(4)		(1)	
		588,656		532,368
Balance at 31 March		**12,298,006**		**9,698,076**

22. Revaluation reserve

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

	2005-06 £000	2004-05 £000
Balance at 1 April	5,472	186
Arising on revaluation during the year (net)	11,348	5,534
Transferred to the General Fund in respect of realised element of revaluation reserve (Note 21)	(783)	(248)
Balance at 31 March	16,037	5,472

23. Notes to the Consolidated Cash Flow Statement

23(a) Reconciliation of operating cost to operating cash flows

The introduction of the new cash flow statement format as per the Financial Reporting Manual has resulted in a reanalysis of the 2004-05 comparative figures.

	Note	2005-06 £000	2004-05 £000 Restated
Net operating cost		(28,514,934)	(26,633,933)
Adjustments for non-cash transactions	10	531,729	970,991
Adjustments for movements in working capital other than cash:			
(Increase) / decrease in stocks		–	1,204
(Increase) / decrease in debtors	17	103,392	(93,129)
Less movements in debtors relating to items not passing through the OCS		(54,184)	18,990
Increase / (decrease) in creditors falling due within one year	19	(50,995)	145,182
Less movements in creditors relating to items not passing through the OCS		(4,548)	52,191
Use of provisions		(408,573)	(474,254)
Net cash outflow from operating activities		(28,398,113)	(26,012,758)

Notes to the Departmental Resource Accounts *(continued)*

23(b) Analysis of capital expenditure and financial investment

	Note	2005-06 £000	2004-05 £000 Restated
Tangible fixed assets additions		(6,600)	(8,652)
Intangible fixed asset additions		(1,220)	(1,165)
Proceeds from disposal of fixed assets	7	11	64
Loans to other bodies		(2,621,447)	(2,462,182)
Repurchase of sold loans		(50)	(455)
Repayment of loans		498,936	566,489
Net cash outflow from investing activities		(2,130,370)	(1,905,901)

23(c)Analysis of capital expenditure and financial investment by request for resources

	Capital expenditure £000	Loans, etc. £000	A in A £000	Non A in A £000	Net Total £000
Request for resources 1	7,820	2,621,497	(399,209)	(99,727)	2,130,381
Request for resources 2					
Request for resources 3					
Net movement in debtors/creditors	148	(8,043)	(831)	(509)	(9,235)
Total 2005-06	7,968	2,613,454	(400,040)	(100,236)	2,121,146
Total 2004-05	9,673	2,475,370	(434,903)	(98,146)	1,951,994

23(d) Analysis of financing

	Note	2005-06 £000	2004-05 £000
From Consolidated Fund (Supply) – current year	21	30,643,915	27,903,025
From Consolidated Fund (Supply) – prior year		57,579	–
Advances from the Contingencies Fund		–	–
Repayment to the Contingencies Fund		–	–
Transfer from Dept of Health		–	7,607
Transfer from Home Office		–	98
Transfer from Dept for Constitutional Affairs		–	689
Net financing		**30,701,494**	**27,911,419**

23(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2005-06 £000	2004-05 £000
Net cash requirement	4	(30,628,392)	(28,022,183)
From the Consolidated Fund (Supply) – current year	23d	30,643,915	27,903,025
From the Consolidated Fund (Supply) – prior year	23d	57,579	–
Amounts due to the Consolidated Fund received and not paid		11,731	19,141
CFERs received in prior year and paid over		(19,141)	(12,819)
Increase/(decrease) in cash		**65,692**	**(112,836)**

Notes to the Departmental Resource Accounts *(continued)*

24. Notes to the Statement of Operating Costs by Departmental Aim and Objectives

Programme grants and other current expenditure have been allocated to each objective by direct allocation in line with the allocation of PSA targets. Corporate costs, such as marketing, have been apportioned to each objective.

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

	2005-06 £000	2004-05 Restated £000
Objective 1 – Children and families	1,990,742	1,619,061
Objective 2 – Schools	8,004,815	7,234,759
Objective 3 – Young people	7,736,127	7,399,356
Objective 4 – Adult skills and further education	3,243,263	3,010,121
Objective 5 – Higher education	7,299,775	7,112,012
Total	**28,274,722**	**26,375,309**

Capital Employed by Departmental Aim and Objectives at 31 March 2006

With the exception of the Sure Start computer system (which is used solely for Objective 1), the National College of School Leadership property and loans to schools (Objective 2) and student loans (which support Objective 5), the Department's capital is almost exclusively employed for administration of the Department. The capital employed has therefore been allocated to objectives in proportion to either gross administration costs, or if more appropriate gross programme costs, except for the capital employed of the above mentioned items that have been directly allocated. As student loans account for 98% of the gross assets, the majority of the capital employed is allocated to Objective 5.

	2005-06 £000	2004-05 Restated £000
Objective 1– Children and families	(16,471)	(5,932)
Objective 2– Schools	(93,515)	(73,864)
Objective 3– Young people	(91,204)	(86,967)
Objective 4– Adult skills and further education	(39,073)	(34,173)
Objective 5– Higher education	12,554,306	9,904,484
Total	**12,314,043**	**9,703,548**

25. Capital commitments

	2005-06 £000	2004-05 £000
Contracted and approved commitments at 31 March 2006 for which no provision has been made	100	2,694

26. Commitments under leases

Commitments under operating leases to pay rentals, service charges and rates during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires. These commitments include costs that will be charged to administrative costs (as disclosed in note 3) and programme expenditure.

	2005-06 £000	2004-05 £000
Obligations under operating leases comprise:		
Land and buildings		
Expiry within 1 year	274	484
Expiry after 1 year but not more than 5 years	595	1,063
Expiry thereafter	27,056	26,928
	27,925	**28,475**
Other		
Expiry within 1 year	34	169
Expiry after 1 year but not more than 5 years	163	114
Expiry thereafter	–	–
	197	**283**

Notes to the Departmental Resource Accounts *(continued)*

27. 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 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 (as well its capital expenditure) are financed by resources voted annually by Parliament. 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 low. 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 2006.

	Book value £000	Fair value £000	Basis of fair valuation
Primary financial instruments:			
Financial assets			
Cash at bank	27,254	27,254	
Student loans	16,082,384	16,082,384	note a
Loans to voluntary aided schools	1,414	1,414	note b
Financial liabilities			
Provisions	(3,563,950)	(3,563,950)	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 2.2% in real terms.

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 2005 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2006 £000	Amount reported to Parliament by Departmental Minute £000
Indemnities						
The Department will meet the accrued Civil Service redundancy entitlement to date of secondees who resigned from the Department to take up Training and Enterprise (TEC) employment on or after 1 January 1993 in TECs in England and Wales if: a) Their TEC makes them redundant due to direct government action during their first five years of employment; b) A court or tribunal ever ruled that TEC and civil service employment were continuous for redundancy calculation purposes.	59,000				59,000	

Notes to the Departmental Resource Accounts *(continued)*

	1 April 2005 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2006 £000	Amount reported to Parliament by Departmental Minute £000
The Department has and will continue to give indemnities to Training and Enterprises Councils (TECs), Chamber of Commerce Training and Enterprise Councils (CCTEs), their representative TEC bodies and those concerned with the wind up, transfer or continuation of TEC delivered activity, where this will facilitate the conclusion of the working and contractual relationship between TECs, CCTEs and Government, thereby ensuring the continuation of essential discretionary activity and the return of residual reserves owing to the Secretary of State at the earliest opportunity. The indemnities will include:						
a) 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;	90,165			8,750	81,415	
b) 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;	1,140			140	1,000	

Notes to the Departmental Resource Accounts *(continued)*

	1 April 2005 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2006 £000	Amount reported to Parliament by Departmental Minute £000
c) 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.	7,150				7,150	
In order to ensure the Croydon Local Learning and Skills Council (LLSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CCTE) property exists in the Croydon LLSC area an indemnity to give a landlord a guarantee that, in the event of the Learning and Skills Council (LSC) ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	4,861			409	4,452	
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 Sate will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	35,803			2,332	33,471	

Notes to the Departmental Resource Accounts *(continued)*

	1 April 2005 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2006 £000	Amount reported to Parliament by Departmental Minute £000
In order to ensure that Adult Learning Inspectorate (ALI) commenced operations in April 2001 and because no suitable Departmental property exists in the Coventry area and indemnity to give landlords a guarantee that, in the event of ALI ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the ALI is and unknown body with no financial history.	4,788	1,702			6,490	
Arrangements to allow the appointment of a receiver to manage the affairs of Merseyside Training and Enterprise Council (MTEC).	2,000				2,000	
Arrangement to allow the appointment of a receiver at any TEC we believe necessary.	6,000				6,000	

29. Losses and special payments

29(a) Losses statement

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

	No. of cases	2005-06 £000	2004-05 £000
Total	393	11,870	14,566
Cash losses	135	9,925	13,636
Losses of accountable stores	14	1,891	866
Fruitless payments and constructive losses	233	38	56
Claims waived or abandoned	11	16	8

Details of cases over £250,000

Cash losses

The Department pre-funded its estimated future early departure liabilities of people who left the Department in 1996 and 1999 by making a payment to the Cabinet Office. The actual charges relating to that group of leavers in 2005-06 were lower than expected and the £385,208 excess funding could not be refunded, resulting in a cash loss to DfES.

Also included in cash losses are a total of 33 cases relating to the improper activities by Individual Learning Account training providers totalling £9,367,867 where recovery has not been possible because the provider organisation has either been dissolved or gone into liquidation.

Losses of accountable stores

Excess and out of date publications valued at £1,771,307 have been destroyed and written off during the year.

Notes to the Departmental Resource Accounts *(continued)*

29(b) Special payments

	No. of cases	2005-06 £000	2004-05 £000
Total	43	310	351

29(c) Other notes

Other notes

Loans remitted (written off) in year

Loans totalling £4,725,000 issued by the Student Loans Company were remitted during the year mainly due to 797 deaths (£3,130,000), 581 borrowers reaching an age when their loans are cancelled (£1,212,000) and 118 disabled borrowers (£383,000).

Acquisition of shares
The Department held the following shares during the financial year:

	£
Shared held at 1 April 2005	6
In Year	
Total Shares held at 31 March 2006	6

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

30. Related party transactions

During the year DfES made grant payments to the following executive non-departmental public bodies and public corporations for which it has lead responsibility:

Adult Learning Inspectorate (ALI)
British Educational Communications and Technology Agency (BECTA)
Children and Family Court Advisory and Support Service (CAFCASS)
Children's Commissioner (Ccom)
Construction Industry Training Board (CITB)
Engineering Construction Industry Training Board (ECITB)
General Teaching Council (GTC)
Higher Education Funding Council for England (HEFCE)
Investors in People UK Ltd (IiP)
Learning and Skills Council (LSC)
Learning and Skills Development Agency (LSDA)
National College of School Leadership (NCSL)
Office for Fair Access (OFFA)
Partnerships for Schools (PfS)
Qualifications and Curriculum Authority (QCA)
Sector Skills Development Agency (SSDA)
Student Loans Company Ltd (SLC)
Training and Development Agency for Schools (TDA) (formally Teacher Training Agency)

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.

31. Entities within the Departmental boundary

The entities within the boundary during 2005-06 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. The administration expenditure is included in request for resource 1 and the programme related costs are disclosed separately under requests for resources 2 and 3. They do not publish separate accounts.

Notes to the Departmental Resource Accounts *(continued)*

32. 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 £1.7 million to £1.3 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 £000	**Attributable fixed assets £000**	**Non-attributable liquid reserves £000**	**Non-attributable fixed assets £000**	**£000**
ILA Commitments repaid to the Department	123,874				123,874
Legacy payments to national and local LSC offices	76,947	5,389	1,502		83,838
TEC contribution to national transition costs	40,894				40,894
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	**263,657**	**11,844**	**23,450**	**12,849**	**311,800**
Outstanding reserves					
Attributable funds held by liquidators	1,034				1,034
Attributable funds held by continuing TECs	250				250
Reserves to be repaid as at 31 March 2006	**1,284**				**1,284**
Total TEC reserves	**264,941**	**11,844**	**23,450**	**12,849**	**313,084**

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

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID 5389655 07/06

Published by TSO (The Stationery Office) and available from:

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Fax orders 0870 600 5533
Order through the Parliamentary Hotline *Lo-call* 0845 7 023474
E-mail book.orders@tso.co.uk
Textphone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9-21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18-19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders 020 7219 3866

TSO Accredited Agents
(see Yellow Pages)

and through good booksellers

ISBN 0-10-294173-4

9 780102 941739