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

Department for Education and Skills

Resource Accounts 2002-03

LONDON: The Stationery Office
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28 January 2004
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(For the year ended 31 March 2003)

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Contents

Annual Report

Scope

1. Entities within the Departmental Accounting Boundary

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

2. Aims and Objectives of the Department

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

- creating opportunities for everyone to develop their learning;
- enable all young people to develop and to equip themselves with the skills, knowledge and personal qualities needed for life and work; and
- achieving excellence in standards of education and levels of skills.

2.2 Our objectives are to:

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

3. Principal Activities

3.1 The core policy and funding activities of the Department during 2002-03 were:

- voluntary and special schools;
- the provision of education for the under-fives;
- childcare initiatives;
- education action zones;
- class size reductions;
- school and local education authority intervention;
- city colleges and other specialist schools;
- grants to former grant maintained schools;
- music, dance and drama schools and institutions;
- the schools curriculum and its assessment;
- excellence in cities and other grants (including the Standards Fund) to local authorities;
- services and initiatives to promote learning, and providing advice, guidance and support;
- careers guidance and services through the Connexions Service;
- education in prisons and other custodial institutions;
- teacher training initiatives;
- Millennium Volunteers;
- modernising the teaching profession and other educational and service initiatives;
- fees and financial support to the Criminal Records Bureau;
- higher and further education provision and initiatives;
- loans to students, student awards and other student grants and their administration;
- access funds and other student support payments;
- grant-in-aid to Executive Non Departmental Bodies (NDPBs), including working capital loans to the General Teaching Council (GTC) and establishment of the Sector Skills Development Agency and Sector Skills Councils;

- reimbursement of fees for qualifying European Community students and post graduate awards;
- compensation payments to teachers and staff of certain institutions and teachers' medical fees;
- the provision of training and assessment programmes for young people and adults;
- grants to promote skills awareness;
- initiatives to improve education, training and qualifications arrangements and access to these;
- the promotion of enterprise;
- initiatives and programmes assisted by the European Union;
- the UK subscription to the International Labour Organisation and other international educational programmes;
- grants and loans to the University for Industry;
- funding to the Regional Development Agencies and London Development Agency;
- the Assisted Places Scheme;
- loans and residual costs of the winding up of the Training and Enterprise Councils (TECs), including the dispersal of assets;
- supporting families and communities via the Sure Start programme;
- promoting the physical, intellectual and social development of babies and young children;
- research, publicity and administration costs, including the Capital Modernisation Fund and initiatives with other government departments under the Invest to Save budget;
- funding preventative services, primarily to 5 – 13 year olds, through local partnerships;
- funding voluntary groups countering social exclusion and poverty amongst children and young people;
- supporting voluntary groups and other organisations to promote and facilitate consultation, participation and representation of children and young people;
- investments and loans to support Private Finance Initiatives (PFI).

4. Bodies outside the Departmental Accounting Boundary

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

Executive Non Departmental Public Bodies (NDPBs)

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

Public Corporation

General Teaching Council (GTC)

Executive NDPBs funded by levy

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

Advisory NDPBs

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

Near to Government Bodies

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

4.2 In addition to the NDPBs, the department also had lead responsibility for Local Education Authorities.

5. Departmental Report

5.1 In May 2003 the department published the Departmental Report, a comprehensive review of the Department for Education (DfES) and Skills and the Office for Standards in Education (OFSTED). It gives detailed information on the department's activities in the 2002-03 financial year and the following financial information:

- outturn for 2001-02;
- estimated outturn 2002-03; and
- expenditure plans for 2003-04, 2004-05 and 2005-06.

6. Pension Liabilities

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

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

7. Operating and Financial Review

7.1 The following paragraphs are a summary of the operating and financial performance during the financial year and investment strategy for the future. Further information is available in the Departmental Annual Report published in May 2003, *Education and Skills: Delivering Results; a strategy to 2006* (revised December 2002), and the Departmental Investment Strategy 2003-06, which are available on the DfES website (www.dfes.gov.uk).

Features of the operating and financial performance for the year

Developments in the Department's environment and its activities

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

- globalisation – the global economy is increasingly interconnected and knowledge-based. This means that goods, services, capital and information are highly mobile, and success depends on the skills of our people;
- information revolution – the development of more powerful and cheaper digital technology has major implications for the way we communicate, manage information and educate ourselves;

- economic change – rapid change in technology and the nature of work requires organisations and individuals to commit themselves to lifelong learning so their skills remain relevant;
- social and cultural changes – an ageing population, changes in family structures, concern about sustainable development, an increasing focus on the treatment of individuals, and higher expectations in a consumer age are all factors that result in people demanding more of our public services.

7.3 Education and skills policy has a big impact on both economic well-being and social inclusion. High quality learning is strongly linked with higher earnings, lower chances of becoming unemployed, better health and reduced crime. The importance of education is recognised in financial terms by the increase in the spending in the education sector. Spending on education in England is set to rise from £45 billion in 2002-03 to £57.8 billion by 2005-06. This is an average increase of 6% a year in real terms over the next three years. It is estimated that by 2005-06 education and training expenditure will be 5.5% of Gross Domestic Product (GDP).

7.4 The Department's activities are focused on:

- Providing high quality early education and childcare for more children;
- Continuing the progress already made in primary education;
- Transforming secondary education;
- Developing a flexible and challenging 14 – 19 phase of education;
- Transforming the school workforce, and in particular freeing teachers to focus on their core professional role;
- Reforming further education and training;
- Strengthening and supporting excellence in higher education, and improving access and participation;
- Developing the skills of the workforce – particularly the basic skills of adults.

The success in meeting the department's aims and objectives depends on working with children, young people, adult learners, teachers, employers and a wide range of partners, particularly the Local Education Authorities and the Non Departmental Public Bodies listed in paragraph 4.1.

7.5 For further information on the Departmental performance in achieving its aims and objectives is available in the Autumn Performance Report (published in November 2003). It reports progress against the Spending Review 2002 Public Service Agreement. targets.

7.6 The Machinery of Government Changes announced in June 2003 have resulted in the creation of a new ministerial post with responsibility for policy and services for children and young people. In addition to bringing together the existing departmental budgets for the Children's Fund, Sure Start and Connexions under the Minister for Children, resources for the following policy areas will be transferring to the Department during the 2003-04 financial year:

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

Under HM Treasury's merger accounting rules the costs will be met out of DfES budgets with effect from 1 April 2003.

Financial position

7.7 The Operating Cost Statement shows that the net operating cost for the department was £22,240,637,000. After deducting excess Appropriations in Aid and other amounts payable to the Consolidated Fund, the net resource outturn is increased to £22,527,619,000. Note 9 analyses the outturn by Estimate Line and paragraph 7.14 explains variances for each Estimate Line where the outturn varies by £100,000 or 10%, whichever is the greater. In addition to the spending on education funded by the Department reported in these accounts, an additional £25 billion Revenue Support Grant for education was paid to Local Authorities by the Office of the Deputy Prime Minister.

7.8 Programme grants and other programme related expenditure accounts for 99% of the net operating costs. The Departmental programme expenditure is £3.9 billion higher than in 2001-02. At the same time the Departments has reduced other administration costs by £11 million.

7.9 Student loans comprise 99% of departmental assets and liabilities and have a significant impact on the Department's balance sheet. The net assets on the balance sheet have increased by £1.4 billion as a result of the increase in the value and volume of loans issued to students. The assets and liabilities not related to student loans have remained relatively stable. The growth is higher than forecast in the Departmental Annual Report because the net lending to students was higher than anticipated.

Analysis of Trends

7.10 The table below compares financial performance indicators for 2000-01 to 2002-03. It focuses on administrative costs and student loans, which has a significant impact on the department's balance sheet.

	2000-01	2001-02	2002-03
(i) Gross admin costs as a % of total gross spend	1.7%	1.2%	1.1%
(ii) Staff costs as a % of gross admin costs	54%	56%	61%
(iii) Purchase of new assets used by the department in year	£10,858,000	£10,552,000	£13,129,000
(iv) Rate of replacement of departmental assets in use	8 years	7 years	6.6 years
(v) Student loans issued in year	£1,899,777,000	£2,117,714,000	£2,292,663,000
(vi) Repayment of Student loans as a % of opening balance of loans	5%	5%	4.6%

Explanation of trends

7.11 The gross administration costs have fallen by £1.3 million, from £239.8 in 2001-02 to £238.5 million. The reasons for the net reduction on gross administration costs are:

- Staff costs rose by £9.8million compared to the previous year as a result of the pay award, an increase in the number of staff employed by the Department and agency staff being reclassified as staff costs following an amendment to the Resource Accounting Manual;
- an £11.1 million decrease in the non staff related administration costs, such as the cost of operating leases.

The fall in gross administration costs and higher programme expenditure have resulted in administration costs falling as a percentage of total expenditure shown in (i) above. Despite the overall fall in gross administration costs, staff costs have risen as a percentage of overall administration costs as shown in (ii) above. This is due to the aforementioned increase in pay costs and the number of staff employed by the department.

7.12 The 6.6 year replacement referred to in (iv) relates to the rate at which non property related assets are replaced by the Department. Over 70% of the Department's investment in non civil estate assets shown in (iii) above, is in providing Information Technology equipment. The table shows that the Department's underlying capital investment has been at a consistent level for the past 3 years. It increased during 2002-03 as a result of the capitalisation of an IT system to administer the Sure Start programme. We plan to sustain this level of investment to enhance individuals' performance and encourage flexible and effective ways of working.

7.13 The amount of student loans issued annually shown in (v) above are increasing year on year as the volume of student borrowers and the amount borrowed increases. Despite the amounts repaid increasing by £81.8 million (compared to 2001-02), repayments represent an increasing small percent of the balance of loans held. This ratio in (vi) also reflects delays in recovering repayments of loans via the Inland Revenue. These problems are being addressed by the Department, in partnership with the Inland Revenue.

Variances against Estimate

7.14 The department manages a range of complex budgets some of which are demand led. In order to ensure that the authority given by Parliament is not exceeded, it is inevitable that a cautious approach is taken, and sufficient resource is voted by parliament to meet anticipated in-year requirements.

7.15 Note 9 of the accounts analyses expenditure in line with the format of the 2002-03 Estimate, comparing the net expenditure to the net budget provision. The significant variances from the Estimate provision which require explanation are:

Request for resource 1 – total net underspend £382.8 million (2%)

A – Support for Schools and Teachers not paid through LEAs

The £203.7 million underspend reflects a classification change in respect of Standards Fund payments which were paid via LEAs (Estimate Line I) rather than being paid directly to Schools from the Estimate Line A Standards Fund budget.

B – Childcare

By the end of the financial year 160 Neighbourhood Nurseries were open, with an additional 1,200 projects still in development. Despite the success in delivering the extra nursery capacity, the opening of the nurseries has been slower than anticipated resulting in an in-year underspend of £22.7 million. This resource is committed and will be available to Neighbourhood Nurseries in future years.

C – Support for Young People

This budget showed an overall underspend of £66.3 million, which includes variances on the following programmes:

- There was significantly lower than planned participation in the Connexions Card scheme;
- Connexions partnerships have authority to carry forward up to 5% of their budget from one year to another to enable them to mitigate difficulties experienced in recruiting staff and negotiating contracts with providers. This facility was used this year as delays resulted in slower than anticipated growth and lower transitional costs. The money is committed and will be available when it is needed;
- The Summer Plus programme took an overly ambitious approach to the number of venues and the amount of matched funding that could be secured. When events were run the take up was lower than anticipated;
- There were further underspends on miscellaneous youth programmes, such as 14 – 19 Pathfinders.

D – Higher Education

Overall this budget was underspent by £37.7 million. The demand led budgets Access to Learning and Hardship Fund payments to students facing extra costs in completing their studies or those who get into difficulty during their course totalled expenditure of £96.9 million, £23.8 million lower than anticipated. The remaining variance was due lower than expected expenditure on other Higher Education initiatives. £16.4 million of the variance will be vired to Estimate Line J to fund a corresponding over-commitment on Mandatory Awards and Dependents' Grants.

E – Further Education, Adult Learning and Lifelong Skills

There are a number of programmes that contribute to the £181.8 million underspend on this Estimate Line. The major variances are:

- The University for Industry (UfI) generated higher levels on income than anticipated, reducing the amount of departmental resources required. Delays in ICT projects and marketing also occurred. The UfI will be carrying forward committed resources into future years;
- The Training and Enterprise Council (TEC) transition budget provides legacy funds to the LSC for use in the same local area from which they were repaid. It also meets genuine transition costs and ensures funds are available to meet any contingent liabilities resulting from the closure of the TECs. Note 26 contains details of the TEC related contingent liabilities and Note 30 gives information on the dispersal of reserves. There was a variance on the transition costs budget for the following reasons:
  - timing differences between the funds being received by the Department from the liquidators and being transferred to the LSC;
  - the contingent liabilities did not crystallise during the year.

The transition budget resource has been retained to meet future transition costs.

- The residual expenditure following the closure of the Individual Learning Account programme was offset by a prior year VAT refund;
- Adult Learning budgets were underspent due to programme slippages.

F – Support for Students in Higher Education

The resource consequences of student support are higher than expected because of a change in the forecasting model (which is used to calculate the amount provided in year in the provisions for interest subsidy and write offs). The new model was not available when the budgets for the Supply Estimate were calculated. However, it was applied to the provisions in the Accounts to ensure the increased liability is recorded in the earliest possible financial year. This has resulted in a higher cost of capital charge and the net £62.6 million overspend on this Estimate Line.

I – Grants to LEAS to support Schools and Teachers

The classification change from funding schools directly to funding the Standards Fund payments via Local Authorities has resulted in an overspend on the Estimate Line. We have Treasury permission to vire £117.4 million from Estimate Line A to fund the overspend on this Estimate Line.

J – Higher Education Fees and Awards through LEAs

This is a demand led programme and higher than anticipated demand resulted in a £16.4 million overspend.

K – Education Maintenance Allowances (EMA)

This is a demand led programme budget which is based on assumptions on the level of take up by young people. In 2002-03 120,000 young people benefited from EMA, but this take up was lower than anticipated resulting in a £64.3 million underspend.

M – Cost of Capital, Depreciation and Provisions

The depreciation, non-civil estate administration cost of capital, and other non cash costs total £14.7 million. The negative cost of capital on miscellaneous programmes (£16.962 million credit) is higher than the other costs in the estimate line, resulting in net negative expenditure of £2.4 million on this Estimate Line. The department did not anticipate having a negative cost of capital charge for the miscellaneous programme assets and as a consequence, the variance on this line is £16.3 million lower than forecast.

O – Childcare Capital

Local Authorities found the relatively small amount per place presented difficulties in utilising the resource to the full in 2002-03. The underspend of £2.3 million is committed and will be taken up in 2003-04.

P – Capital Support for Young People

Delays in projects have resulted in a £2.7 million underspend.

Q – Capital Grants and GIA to NDPBs supporting Higher Education

The £97.4 million overspend is the result of income from the Department of Trade and Industry innovation funds for payment to HEFCE which was not included in the Supply Estimate in either the Grant in Aid or Appropriation in Aid budgets. As there is no authority to appropriate the receipts the cash has to be surrendered to the Consolidated Fund. However, the Department did pay HEFCE the grant as part of the Grant in Aid outturn which has resulted in a variance on the Grant in Aid.

R – Capital Grants supporting Further & Adult Education & GIA to NDPBs

There are three main causes of the £105.3 million underspend on this Estimate Line:

- The Learning and Skills Council did not require the full cash Grant in Aid budget because of underspends in its resource budget caused by slippages on various programme activities including;
  - Employment Training Pilots and Investors in People Pilots, which both received two year funding in the first year of the programmes;
  - TEC Legacy projects slipped because projects could not be approved due to uncertainties over the timing of the receipts of the funds in specific localities;
  - 16 – 19 sector rationalisation and Adult and Community Learning capital projects due to delays in some of the projects.
- Capital Modernisation Fund UK Online Centre experience project slippage resulting in expenditure lower than planned in the Estimate.
- Sector Skills Development Agency (SSDA) Grant in Aid budget was underspent because fewer organisations than expected were able to meet the exacting standard required of licenses to act as Sector Skills Councils (SSCs). The first full SSCs were not in fact launched until April this 2003, this had an impact on direct payments to them as operational SSCs and other consequential impacts on the SSDA's marketing budget which commits significant amounts to the launch of each SSC both directly and indirectly. Ministers supported this intention to build quality into the network from the start and accepted the impact on Grant in Aid spend. Full carry over was approved by the Secretary of State.

Request for resource 2 - total net underspend £233.9m (52%)

A - Sure Start Administration and Current Grants

Sure Start Local Programmes were unable to match the ambitious spending expectations set in the last two spending reviews. This resulted in a £102.2 million underspend. The budget has been re-profiled to allow them a longer period to embed integrated services in their areas.

C – Sure Start Capital Grants

Sure Start capital projects were slow at getting off the ground because the Department focused on ensuring the quality of the projects. The delays resulted in a £131.7 million underspend. The budget is ring-fenced and expenditure is committed to local programmes in future years and a capital strategy has been developed to speed up build.

Request for resource 3 - total net underspend £10.1m (8%)

Although Children's Fund overall expenditure is within the net resources budget for Estimate Line, the administration costs exceeded the administration cost control totals. This was due to the Children's and Young Persons Unit receiving additional responsibilities during the year. Permission is being sought from HM Treasury to vire the excess administration costs from programme expenditure.

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

8.1 There are a number of influences which may have an effect on the Department's business in the future. The key factors are:

- The Future of Higher Education White Paper (published in January 2003) sets out plans for the radical reform and investment in universities and Higher Education colleges, including proposals for changes to student finance arrangements, and plans for making higher education accessible to more young people;
- The outcome of the Spending Review 2004 and future public sector spending plans;
- The Skills Strategy White Paper (published 9 July 2003) sets out the plans for a new skills alliance where every employer, employee, and citizen plays their part in raising skill levels.

8.2 In addition to the contingent liabilities listed in Note 26, another source of uncertainty is the constant pressure to raise resources to develop and deliver programmes.

9. Investment in the Future

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

Sure Start including Early Years Education and Childcare

9.2 The Spending Review 2002 settlement provided substantial new resources to enhance services, particularly for the most vulnerable; and integrated responsibility within a single interdepartmental Sure Start Unit reporting to this Department and the Department for Work and Pensions. The combined budget totalling £1.5 billion includes capital investment of £449 million by 2006. The investment will be used to build on existing integrated programmes and establish children's centres in disadvantaged areas providing quality childcare with early education, family and health services for 650,000 children; the creation of a further 250,000 new childcare places for 450,000 children in children's centres and else where by 2006, bringing the total new places for children to £1.85 million by 2006.

Schools

9.3 We are working to create more stimulating learning environments in schools and to determine characteristics which make them most suited to education in the 21st century. In 2003-04, a typical secondary school will receive direct funding of around £75,000 and a typical primary school around £22,000. By 2005-06 capital investment in school rebuilding and renewal projects will reach £5.1 billion. The following are examples of how capital investment is benefiting schools now and in the future:

- By 2004, over 650 schools will have benefited from rebuilding or major renewal;
- £220 million has been set aside to adapt buildings for disabled use that will ensure by 2006 all mainstream schools will have washrooms which are accessible to wheelchair users, and at least 50% of teaching accommodation will be similarly accessible;

- Twelve LEAs are sharing £12.5 million under the Department's Classroom of the Future Initiative, which is funding 30 pilot projects to raise pupil achievement through innovative building design;
- The Curriculum Online partnership between the Government, broadcasters and software providers will allow pupils greater access to online resource based on the National Curriculum and tailored to their needs, enabling them to learn at their own pace. It will also ease teachers' workloads by assisting their lesson planning;
- Investment in ICT has improved computer to pupil ratios to 1:9.7 in primary and 1:6 in secondary schools, and they will be improved to 1:8 and 1:5 respectively by 2004. Over 99% of all schools were connected to the internet at April 2002, and 24% connected to broadband by October 2002;
- Since its launch in January 2002, the Laptops for Teachers scheme has provided over 64,000 laptops, and has a target to equip 300,000 teachers over the period 2002-03 to 2005-06;
- Extended schools will be able to provide a range of services for children, their families and the wider community, including childcare, study support, adult and family learning, access to modern technology, health and social care and sports or art activities. We aim to have an extended school in every LEA by 2005-06;
- Publicly-funded, independent Academy schools offer a balanced curriculum with a specialist focus in one or more areas. The first three Academies opened in September 2002 and there are a further 20 partnerships working to establish Academies. New investment will allow us to deliver at least 33 Academies by 2006.

9.4 The Government has committed itself to a programme of rebuilding and renewal to ensure that secondary education in every part of England has facilities of 21st century standard. The aim of this programme will be to deliver this goal successfully for every secondary pupil within 10 – 15 years from 2005-06, subject to future public spending decisions. This is an exciting vision. It is about using capital investment to deliver much higher standards of education and to transform learning and working environments in schools.

Post 16 Learning

9.5 Research has confirmed the benefits of recent improvements to the Further Education (FE) estate. Investment in the estate has attracted more students and increased college credibility with local employers.

9.6 The size of the FE estate continues to diminish as space is used more effectively. The ICT infrastructure is improving, through the development of the National Learning Network, which links all FE colleges to the internet via the Joint Academic Network (JANET). Increased capital investment is an essential part of our strategy to transform standards in education and to engage disadvantaged adults in learning. The investment priorities for the future are:

- Investment in the FE estate will rise to £400 million by 2005-06. This funding will be used to rationalise and modernise the FE estate, allowing colleges to focus on their strengths and update training facilities. As part of this process we will establish 400 Centres of Vocational Excellence (CoVE) by 2005-06. These will focus on enhancing the employability of new entrants, on developing the skills of those already in work and on enhancing the employment prospects of those seeking work (including self-employment);
- Investment in the Higher Education (HE) estate will play an important role in encouraging young people into HE and reducing non-completion rates. A modern estate will be needed to achieve the Public Service Agreement target of increasing participation in HE towards 50% of 18 – 30 year olds by 2010. As a result of the investment we aim to have 75% of the estate in the 'satisfactory' category by 2004, an increase of 13% since 1998;
- Investment since 2000 has resulted in improvements in the HE ICT infrastructure and allowed the commencement of the e-Universities project;
- The Government is committed to enhancing the excellence in higher education research to ensure universities are able to compete with the best international institutions. The investment in universities' science research infrastructure will increase to £500 million a year by 2004-05, of which £200 million will be funded from this Department;

- The Department will also be investing significant sums in the wider HE estate. Further details are contained in 'The Future of the Higher Education' White Paper published in January 2003.

Administrative Capital

9.7 Investment in the Department's own administrative assets contributes to the efficient operation of the Department and supports all its objectives. It provides a physical environment and ICT infrastructure that enhances individuals' performance and encourage flexible and effective ways of working. The Department aims to be an exemplar to other employers, particularly in the use of technology. The utilisation of and investment in assets is continuously assessed and priorities are set to endure the Department delivers effectively. Assets are managed centrally and the provision of accommodation, furniture and ICT equipment is planned by Departmental strategies that are considered and endorsed by the Executive Committee.

9.8 The Department's non ICT assets have a net book value of £68.4 million and comprise ten core properties, furniture, office machinery and vehicles. Included in properties is the National College for School Leadership, which the Department funded for use by the NDPB. This single property accounts for £24 million of the £58.9 million total net book value of land and buildings.

9.9 The Department's policy is to replace ICT assets on a three year cycle. The net book value of £13.6 million consists mainly of desk top facilities.

9.10 All major projects are controlled using project management methodology. Spending is planned and monitored through the Departmental business planning process and a senior management group establishes the strategy and priorities for investment in ICT.

Public-Private Partnerships / Private Finance Initiatives

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

9.12 There are 51 signed schools PFI deals to date which have attracted to the value of £1.3 billion of private sector investment, benefiting over 560 schools. A further 33 projects are in development and procurement, worth over £1.1 billion. So far, PFI has been very successful in procuring large projects, and the Department is seeking to make PFI more flexible in the future so that it can support smaller projects more easily. Future developments include the introduction of standard schools contract material, which will reduce the cost and timescales involved for both the public and private sectors and the setting up of a joint venture company in partnership with Partnerships UK and the Church of England (the major non LEA sponsor of Voluntary Aided Schools). Further information on the financial investment in the joint venture company, Partnerships for Church of England Schools is contained in Note 14 to the accounts.

Capital Modernisation Fund

9.13 The Capital Modernisation Fund (CMF) is a cross-Government fund which supports innovative capital projects. Spending Review 2002 made provision of £2.2 billion available for the CMF over the three years 2003-04 to 2005-06.

9.14 During 2002-03 the Department issued grants totalling £91.8 million (£99.3 million in 2001-02) to support various CMF projects. Of this, grants totalling £83.9 million were issued to support UK online centres. The UK online centres help to support the Government's overall drive to ensure that everyone who wants to can access ICT by 2005. Its overall aim is to explore ways of engaging hard to reach people in disadvantaged communities and encouraging them into learning and gaining the skills for the knowledge economy.

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

Invest to Save

9.16 HM Treasury's Invest to Save Budget funds innovative projects which bring together two or more bodies to deliver better public services. The Department and its external partners were awarded £1.1 million from the Invest to Save Budget starting 2003-04 to fund three projects. The successful bids were:

- Online registration, attendance and achievement system for a college;
- CITB Electronic Testing and Certification system;
- National Children's Bureau – Children's Centre project.

9.17 The proposals in the 2002 Spending Review included the Department's new capital investment plans and, following the settlement by HM Treasury, the Departmental Investment Strategy for the years 2003-04 to 2005-06 was published in December 2002.

Research and development

9.18 The Operating Cost Statement includes £11.6 million expenditure on research projects during 2002-03. It is the department's policy not to capitalise the research costs, they are written off in the year the expenditure was incurred.

Management

10. Ministers

10.1 The following ministers formed the ministerial team of the department during the 2002-03 financial year:

Estelle Morris	Secretary of State (To 23 October 2002)
Charles Clarke	Secretary of State (From 25 October 2002)
Margaret Hodge	Minister of State for Lifelong Learning, Further and Higher Education
David Miliband	Minister of State for School Standards (From 30 May 2002)
Stephen Timms	Minister of State for School Standards (To 29 May 2002)
Catherine Ashton	Parliamentary Under Secretary of State for Sure Start
Ivan Lewis	Parliamentary Under Secretary of State for Young People and Adult Skills
Stephen Twigg	Parliamentary Under Secretary for Schools (From 30 May 2002)
John Healey	Parliamentary Under Secretary of State for Adult Skills (To 29 May 2002)

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

Stephen Twigg became Parliamentary Under Secretary of State for Young People and Learning in June 2002. In December 2002 his ministerial responsibilities changed and he became Parliamentary Under Secretary for Schools.

Margaret Hodge became responsible for Further Education in addition to her existing responsibilities in December 2002.

Ivan Lewis became Parliamentary Under Secretary of State for Adult Learning and Skills in June 2002. In December 2002 his ministerial responsibilities changed and he became Parliamentary Under Secretary of State for Young People and Adult Skills.

11. Permanent Head of Department and the Management Board

David Normington	Permanent Secretary
Peter Housden	Director General, Schools Directorate
Peter Makeham	Director General, Finance and Analytical Services Directorate
Peter Shaw	Director General, Youth Directorate
Janice Shiner	Director General, Lifelong Learning Directorate
Susan Thomas	Director General, Corporate Services and Development Directorate
Peter Wanless	Director, Strategy and Communications Directorate (To 1 February 2003)
Anne Jackson	Acting Director, Strategy and Communications Directorate (From 3 February 2003)

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

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

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

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

13. Ministers' and Board Members' Remuneration

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

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

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

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

14. Employment of Disabled Persons

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

15. Equal Opportunities Policy

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

16. Payment of Suppliers

16.1 It is Departmental practice to pay for goods and services after receipt and within 30 calendar days of the invoice date. This policy guarantees the satisfactory receipt of goods and services before payment is made, and ensures that the supplier is paid within a reasonable time. During 2002-03, 95% of suppliers 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.

17. Auditor

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

David Normington
Accounting Officer for the Department for Education and Skills

Statement of Accounting Officer's Responsibilities

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

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

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

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

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

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

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

Request for resources 1:	Mr David Normington, Principal Accounting Officer and Permanent Head of the Department.
Request for resources 2:	Ms Naomi Eisenstadt, Additional Accounting Officer: Director of Sure Start Unit
Request for resources 3:	Ms Althea Efunshile, Additional Accounting Officer: Director of the Children and Young People's Unit

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

Statement on Internal Control

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

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I have ensured the necessary procedures were established within the Department for the year ended 31 March 2003 to implement Treasury guidance on risk assessment.

To achieve this goal, the Department has:

- a management board which meets every month to consider plans and the strategic direction of the Department (the board consists of senior managers in the Department and 2 non-executive members);
- reports from the chairman of the Audit Committee, to the DfES Board, concerning internal control;
- an organisation-wide register of generic risk reviewed quarterly by the Audit Committee;
- key delivery targets managed within programmes which explicitly require the management of risk;
- delivered a significant proportion of its business through project management which includes risk management;
- risk management guidance for general application across the Department;
- developed a framework for all the Department's Directorates to provide assurance on their internal operation;
- business risk managed at Divisional level using risk registers;
- further enhanced the risk framework for the Department including setting up a forum chaired by the Director General for Finance and Analytical Services looking at the significant risks facing the Department in the delivery of business objectives.

My review of the effectiveness of the system of internal control is informed by the Department's Internal Audit Division, which operates to standards defined in the Government Internal Audit Manual. They submit regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement.

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

David Normington

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

I certify that I have audited the financial statements on pages 21 to 57 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 27 to 30.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 17, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on page 18 reflects the Department's compliance with Treasury's guidance 'Corporate Governance: Statement on the System of Internal Control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department for Education and Skills at 31 March 2003 and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

02 December 2003

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

SCHEDULE 1

Summary of Resource Outturn 2002-03

	2002-03							2001-02
	Estimate			Outturn				
	Gross Expenditure	A in A	**NET TOTAL**	Gross Expenditure	A in A	**NET TOTAL**	Net Total Outturn compared with Estimate saving/ (excess)	Prior Year Outturn
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1 (notes 5 and 9)	22,592,896	(37,769)	22,555,127	22,210,133	(37,769)	22,172,364	382,763	18,504,118
Request for resources 2 (notes 5 and 9)	449,257	-	449,257	215,372	-	215,372	233,885	133,893
Request for resources 3 (notes 5 and 9)	150,000	-	150,000	139,883	-	139,883	10,117	37,357
Transfer of functions	-	-	-	-	-	-	-	2,272,155
Total resources	23,192,153	(37,769)	**23,154,384**	22,565,388	(37,769)	22,527,619	626,765	20,947,523
Non-operating cost A in A			**(328,913)**			(287,020)	(41,893)	(216,437)
Net cash requirement			**24,495,518**			**23,515,145**	**980,373**	**21,893,500**

Reconciliation of resources to cash requirement

	Note	£000	£000	£000
Net total resources		**23,154,384**	**22,527,619**	**626,765**
Capital:				
Acquisition of fixed assets				
Cash purchases	11 & 12	12,299	17,180	(4,881)
Investments				
Loans issued in year	13	2,379,337	2,292,663	86,674
Increase in Investments	14	-	524	(524)
Non-Operating Cost A in A				
Book value of fixed assets disposals	11	(1,875)	(111)	(1,764)
Loan repayments	5	(327,038)	(286,909)	(40,129)
Accruals adjustments				
Non-cash items	3	(723,538)	(1,649,106)	925,568
Changes in working capital other than cash	15	5,500	(32,869)	38,369
Utilisation of provisions		(3,551)	646,154	(649,705)
Changes in creditors after more than one year		-		
Net Cash Requirement (Schedule 4)		**24,495,518**	**23,515,145**	**980,373**

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

Request for resources 1 – the £382,763,000 underspend is 2% of the Estimate provision. The underspend is a result of slower than expected growth in certain programmes. The explanation of the main over/underspends can be found in the Operating and Financial Review.

Request for resources 2 – the £233,885,000 underspend is 52% of the Estimate provision. The reason for the variance is slower than anticipated roll-out of Sure Start programmes.

Request for resources 3 – the £10,117,000 underspend is 7% of the Estimate provision. The reason for the variance is the slower than anticipated implementation of local partnerships.

See Note 9 for a breakdown of Estimate and outturn by estimate line. Further explanations of the variances can be found in the Operating and Financial Review section in the Annual Report (pages 5 to 11).

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

The main reason for the £980,373,000 variance between the estimated net cash requirement and the actual net cash requirement is due to the £626,765,000 underspend on net resources. In addition to this, the other major contributing factors were the underspend on student loans issued during the year, higher than anticipated non cash costs and a lower than anticipated increase in accruals and prepayments (which are the items included in the estimate of changes in working capital as per Treasury definitions).

Analysis of income payable to the Consolidated Fund

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

	2002-03 Forecast		2002-03 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess A in A			105,992	*74,992*
Non operating income and receipts excess A in A				
Sub Total	-	-	105,992	*74,992*
Other operating income and receipts not classified as A in A			990	*983*
Other non operating income and receipts not classified as A in A	-	-	49,667	*45,077*
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Total	**-**	**-**	**156,649**	***121,052***

Actual outturn – resources

Request for resources 1: Actual amount net resource outturn £22,172,363,570.86. Actual amount of savings in resources over Estimate £382,763,429.14.
Request for resources 2: Actual amount net resource outturn £215,372,423.17. Actual amount of savings in resources over Estimate £233,884,576.83.
Request for resources 3: Actual amount net resource outturn £139,883,278.89. Actual amount of savings in resources over Estimate £10,116,721.11.

Actual outturn – cash

Net cash requirement: Outturn net requirement £23,515,145,026.95, which is £980,372,973.05 less than Estimate.

The actual receipts surrenderable to the Consolidated Fund £121,051,896.11.

SCHEDULE 2

Operating Cost Statement

for the year ended 31 March 2003

		2002-03		2001-02 (Restated)	
		£000	£000	£000	£000
Administration costs					
Staff costs	2		144,449		134,643
Other administration costs	3		94,040		105,116
Gross administration costs			**238,489**		**239,759**
Operating income	5		(6,817)		(6,549)
Net administration costs			**231,672**		**233,210**
Programme costs					
Request for resources 1					
Expenditure	4	21,981,599		18,313,440	
Less: other programme income	5	(137,934)	21,843,665	(201,839)	18,111,601
Request for resources 2					
Expenditure	4	210,082		130,216	
Less: income	5	-	210,082	-	130,216
Request for resources 3					
Expenditure	4	135,218		35,020	
Less: income	5	-	135,218	-	35,020
Net programme costs	4		**22,188,965**		**18,276,837**
Net operating cost	7		**22,420,637**		**18,510,047**
Adjustment for transfer of Estimate cover	9		-		2,428,318
Net resource outturn	7		**22,527,619**		**20,947,523**

Statement of Recognised Gains and Losses

for the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
Net (loss)/gain on revaluation of tangible fixed assets	2,575	(814)
Net (loss)/gain on revaluation of intangible fixed assets	(78)	-
Total recognised gains and losses for the financial year	**2,497**	**(814)**

All income and expenditure reported in the Operating Cost Statement is derived from continuing operations, apart from the payment to Department of Work and Pensions, the Home Office, Department of Trade and Industry and the Cabinet Office under the Machinery of Government Changes in 2001-02.

SCHEDULE 3

Balance Sheet

as at 31 March 2003

	Note	31 March 2003 £000	31 March 2003 £000	31 March 2002 £000	31 March 2002 £000
Fixed assets:					
Tangible assets	11	82,007		72,622	
Intangible assets	12	1,704		388	
Loans	13	8,726,688		6,864,360	
Investments	14	524		-	
			8,810,923		6,937,370
Current assets					
Stocks	16	1,032		799	
Debtors	17	202,521		216,586	
Loans repayable within 1 year	17	561,177		341,760	
Cash at bank and in hand	18	133,223		193,475	
		897,953		752,620	
Creditors (due within one year)	19	(614,930)		(658,567)	
		(614,930)		(658,567)	
Net current assets			**283,023**		94,053
Total assets less current liabilities			**9,093,946**		7,031,423
Provisions for liabilities and charges	20		(3,797,623)		(3,118,020)
			5,296,323		**3,913,403**
Taxpayers' equity					
General fund	21		5,292,646		3,914,564
Revaluation reserve	22		3,677		(1,161)
			5,296,323		**3,913,403**

David Normington
Accounting Officer

Date 6 November 2003

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
Net cash outflow from operating activities (a)	**(21,419,835)**	(17,526,583)
Capital expenditure and financial investment (b)	**(1,976,934)**	(1,896,638)
Payments of amounts due to the Consolidated Fund	**(48,324)**	(45,613)
Financing from the Consolidated Fund (c)	**23,384,841**	19,653,420
Increase/(Decrease) in cash in the period	**(60,252)**	184,586

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

Reconciliation of operating cost to operating cash flows	**2002-03**	**2001-02**
Net operating cost	**22,420,637**	**18,510,047**
Adjust for non cash transactions (note 3)	(1,649,178)	(1,342,781)
Adjust for movements in working capital other than cash (note 15)	2,222	(118,742)
Utilisation of provisions	646,154	478,059
Net cash outflow from operating activities	**21,419,835**	17,526,583

Analysis of capital expenditure and financial investment	**2002-03**	**2001-02**
Intangible fixed asset additions (note 12)	2,159	440
Tangible fixed assets additions (note 11)	15,021	31,469
Proceeds from disposal of fixed assets (note 5)	(39)	(1,565)
Loans to other bodies (note 13)	2,292,663	2,117,714
Repayment of Loans (note 13)	(333,394)	(251,464)
Increase in Investments (note 14)	524	-
Purchase of fixed assets transferred to DWP	-	44
Net cash outflow from investing activities	**1,976,934**	**1,896,638**

Analysis of financing and reconciliation to the net cash requirement	**2002-03**	**2001-02**
From Consolidated Fund – current year [1]	23,385,422	22,064,281
From Consolidated Fund – prior year [2]		16,876
Advances from the Contingencies Fund	-	581
Repayment to the Contingencies Fund	(581)	-
Transfer to DWP (note 9)	-	(2,405,662)
Transfer to Home Office (note 9)	-	(4,590)
Transfer to DTI (note 9)	-	(8,832)
Transfer to Cabinet Office (note 9)	-	(9,234)
Net financing	**23,384,841**	**19,653,420**
(Increase)/Decrease in cash	**60,252**	**(184,586)**
Net cash flows other than financing	**23,445,093**	**19,468,834**
Adjustments for payments and receipts not related to Supply:		
CFERs received in year and not paid over	90,602	20,933
CFERs received in prior year and paid over	(20,933)	(24,585)
Transfer to DWP (note 9)	-	2,405,662
Transfer to Home Office (note 9)	-	4,590
Transfer to DTI (note 9)	-	8,832
Transfer to Cabinet Office (note 9)	-	9,234
Adjustment for payments financed from Contingencies Fund advances accounted for on Schedule 1 in a different year (in accordance with Government Accounting):		
Current year payments accounted for on Schedule 1 in the following year	-	
Transitional adjustment for working capital	383	-
Net cash requirement (Schedule 1)	**23,515,145**	**21,893,500**

[1] Amount of grant actually issued to the department to support the net cash requirement = £23,385,422,161.10

[2] Amount of grant actually issued to the department to support the prior year net cash requirement = £0.00

SCHEDULE 5

Resources by Departmental Aim and Objectives

for the year ended 31 March 2003

	2002-03			2001-02		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
AIM: Our aim is to help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; enable all young people to develop and to equip themselves with the skills, knowledge and personal qualities needed for life and work; and achieving excellence in standards of education and levels of skills.						
Objective 1	4,014,555	(3,422)	4,011,133	3,200,275	(12,431)	3,187,844
Objective 2	9,044,822	(7,832)	9,036,990	6,827,395	(10,677)	6,816,718
Objective 3	9,506,011	(133,497)	9,372,514	8,690,765	(185,280)	8,505,485
Net Operating Costs	22,565,388	(144,751)	22,420,637	18,718,435	(208,388)	18,510,047

The department's objectives were as follows:

Objective 1 - Give children an excellent start in education so that they have a better foundation for future learning

Objective 2 - Enable all young people to develop and to equip themselves with the skills, knowledge and personal qualities needed for life and work

Objective 3 - Encourage and enable adults to learn, improve their skills and enrich their lives.

Following the Machinery of Government Changes in 2001-02 the Department set new objectives in line with its new responsibilities and priorities. The new aims and objectives were published in the booklet *Education and Skills: Delivering Results a Strategy to 2006*. This has resulted in the 2001-02 comparative figures being restated to reflect the new objectives. See note 23 for further information on Schedule 5.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2002-03 *Resource Accounting Manual* (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items material in relation to the accounts.

1.1 Accounting convention

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

1.2 Basis of consolidation

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

1.3 Tangible fixed assets

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

1.4 Leases

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

1.5 Depreciation

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

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

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

1.6 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,500 or more is incurred. The software licences are amortised over 2 - 3 years. The value of the intangible assets have been stated at current cost, using appropriate indices published by the Office for National Statistics.

Notes to the Accounts - continued

1.7 Investments

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

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

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

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

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

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

In addition to the loans, the Department is holding share capital in the Partnerships for Church of England Schools. This is a joint venture company in which the Department holds 45% of the share capital. Under the company's Articles of Association no one partner has overall control of the company, so the share capital and working capital loan are disclosed as investments in these Accounts.

1.8 Stocks and work in progress

Stocks and work in progress are valued as follows:

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

b work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

1.9 Research and development

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

1.10 Operating income

Operating income is income which relates directly to the operating activities of the department. It is stated net of VAT. It comprises of other income such as that from investments as well as fees and charges for services provided, on a full cost basis, to external customers. It includes both income appropriated-in-aid to the Estimate, (such as general administration receipts and income from other departments for payment to DfES's NDPBs), and income to the Consolidated Fund that HM Treasury has agreed should be treated as operating income.

1.11 Administration and programme expenditure

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

Notes to the Accounts - continued

1.12 Capital charge

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

1.13 Foreign exchange

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

1.14 Pensions

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

1.15 Early departure costs

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

1.16 Grants payable

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

1.17 Provisions

In addition to Early Departure Costs the department provides for legal or constructive obligations for student support costs related to student loans which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 6% in real terms. The discount rate is reduced to 3.5% from 1 April 2003. The effect on provisions will be reflected in the 2003-04 Resource Accounts.

1.18 Contingent liabilities

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

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;

Notes to the Accounts - continued

- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the *Resource Accounting Manual* to be noted in the resource accounts.

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

1.19 Value Added Tax

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

1.20 Transfer of functions

The Machinery of Government Changes (MOG) that took place during 2001-02 transferred the Employment Service (RfR2 in the 2001-02 Supply Estimate) to the Department for Work and Pensions. For ease of comparison the 2001-02 RfRs have been renumbered throughout these financial statements so that the RfR3 for Sure Start becomes RfR2 and RfR4 Children's Fund becomes RfR3.

1.21 Staff and administration costs

This year the costs of inward secondments and temporary/agency staff have been reclassified as staff costs rather than administration costs and prior year comparatives have been restated accordingly. There is no effect on the net operating cost as a result of this reclassification.

Notes to the Accounts - continued

2. Staff numbers and costs

A Staff costs consist of:

	2002-03				2001-02
					(Restated)
			£000		£000
	Total	Officials	Ministers	Special Advisors	**Total**
Wages and salaries	**116,643**	116,164	309	170	109,687
Social Security	**7,887**	7,828	31	28	7,157
Other pension costs	**14,992**	14,984	-	8	12,794
Sub Total	**139,522**	**138,976**	**340**	**206**	**129,638**
Inward Secondments and temporary/agency staff	**6,063**	6,063	-	-	5,005
Total	**145,585**	**145,039**	**340**	**206**	**134,643**
Charged to admin Staff costs	144,449	143,903	340	206	134,643
Charged to programme costs	1,136	1,136	-	-	-
	145,585	145,039	340	206	134,643
Less recoveries in respect of outward secondments *	**(1,351)**	(1,351)	-	-	(1,260)
Total Net Costs	**144,234**	**140,330**	**340**	**206**	**129,878**

* Recovered as administration income.

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

For 2002-03, employers' contributions of £14,991,954 were payable to the PCSPS (2001-02: £12,793,713) at one of four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experiences of the scheme.

B. The average number of whole-time equivalent persons employed (including senior management, ministers special advisers, staff on secondment or loan into the department and agency/temporary staff, but excluding staff on secondment to other organisations) during the year was as follows:

	2002-03	2001-02
Objective		
1	1,835	1,561
2	1,662	1,486
3	1,221	1,308
TOTAL	**4,718**	**4,355**

Following the Machinery of Government Changes in 2001-02, the Department set new objectives in line with its new responsibilities and priorities. The comparative figures have been restated to reallocate the staff number for the new objectives. In addition to this change it has been necessary to adjust the 2001-02 figures to include staff on secondment and agency / temporary staff, a new requirement of the *Resource Accounting Manual*.

Notes to the Accounts - continued

C. The salary, pension entitlements and the value of any taxable benefits in kind for the Ministers of the Department were as follows:

Name	Age	Ministerial Salary Received	Real increase in pension at 65	Total accrued pension at 65 at 31 March	Benefits in kind
	Years		£000	£000	(rounded to the nearest £100)
2002-03					
Ministers					
Rt. Hon Estelle MORRIS MP *Secretary of State (To 23 October 2002)*	50	£56,715	0-2.5	0-5	-
Rt. Hon Charles CLARKE *Secretary of State (From 25 October 2002)*	52	£30,423	0-2.5	0-5	-
Margaret HODGE MBE MP *Minister of State*	57	£36,240	0-2.5	0-5	-
Stephen TIMMS MP *Minister of State (To 29 May 2002)*	47	£9,060	0-2.5	0-5	-
David MILIBAND MP *Minister of State (From 30 May 2002)*	37	£30,394	0-2.5	0-5	-
Baroness Catherine ASHTON *Parliamentary Under Secretary of State*	47	£91,325	0-2.5	0-5	-
John HEALEY MP *Parliamentary Under Secretary of State (To 29 May 2002)*	43	£4,436	0-2.5	0-5	-
Ivan LEWIS MP *Parliamentary Under Secretary of State*	36	£27,506	0-2.5	0-5	-
Stephen TWIGG MP *Parliamentary Under Secretary of State (From 30 May 2002)*	36	£23,069	0-2.5	0-5	-

Notes to the Accounts - continued

Name	Age	Ministerial Salary Received	Real increase in pension at 65	Total accrued pension at 65 at 31 March	Benefits in kind) (rounded to the nearest £100)
2001-02	Years		£000	£000	
Ministers					
Rt. Hon David BLUNKETT MP *Secretary of State (To 8 June 2001)*	54	£ 12,493	-	-	-
Rt. Hon Estelle MORRIS MP *Secretary of State*	49	£ 61,924	0-2.5	0-5	-
Margaret HODGE MBE MP *Minister of State*	56	£ 33,699	0-2.5	0-5	-
Tessa BLACKSTONE *Minister of State (To 10 June 2001)*	59	£ 21,691	-	-	-
Tessa JOWELL MP Minister of State (To 10 June 2001)	54	£ 8,839	-	-	-
Jacqui SMITH MP *Parliamentary Under Secretary of State (To 10 June 2001)*	39	£ 6,709	-	-	-
Malcolm WICKS MP *Parliamentary Under Secretary of State (To 10 June 2001)*	54	£ 6,709	-	-	-
Michael WILLS MP *Parliamentary Under Secretary of State (To 10 June 2001)*	49	£ 6,709	-	-	-
Stephen TIMMS MP *Minister of State (From 11 June 2001)*	46	£ 26,517	0-2.5	0-5	-
Catherine ASHTON *Parliamentary Under Secretary of State (From 11 June 2001)*	46	£ 70,419	0-2.5	0-5	-
John HEALEY MP *Parliamentary Under Secretary of State (From 11 June 2001)*	42	£ 21,617	0-2.5	0-5	-
Ivan LEWIS MP *Parliamentary Under Secretary of State (From 11 June 2001)*	35	£ 21,617	0-2.5	0-5	-

NB: As the House of Commons (or House of Lords) and not the Department for Education and Skills meets the Exchequer contribution to the cost of pension provision for Ministers, the pension details are included on a "for information" basis.

Pension benefits for Ministers are provided by the Parliamentary Contribution Pension Fund (PCPF). 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 a 'final 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 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 contributions).

Notes to the Accounts - continued

Benefits for Ministers are payable at the same time as MP's benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office on or after the age of 65. Members pay contributions of 6% of their Ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the Ministerial salary.

In the event of retirement because of serious ill health, the Ministerial pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Ministers pension. On death in service, the Ministerial arrangements provide for lump sum gratuity of four times the Ministerial salary. Pensions increase in payment in line with changes in the Retail Price Index. On retirement, it is possible to commute part of the pension for a lump sum.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£55,118, 2001-02 £51,822) 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).

D. The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of the Department were as follows:

	Age	Salary including performance pay	Real increase in pension at 60	Total accrued pension at 60 at 31 March (£k)	Benefits in kind (rounded to the nearest £100)	Employer contribution to partnership pension account including risk benefit cover - to the nearest £100 (Note (d)
2002-03	**Years**	**£000**	**£000**	**£000**		
Officials						
Mr David NORMINGTON *Permanent Secretary*	51	140 - 145	2.5-5	45-50	-	-
Mr Peter SHAW *Director General*	53	120 - 125	2.5-5	45-50	-	-
Mr Peter MAKEHAM *# *Director General*	55	120 - 125	2.5-5	40-45	-	-
Mrs Susan THOMAS *Director General*	51	100 - 105	0-2.5	2.5-5	-	-
Mr Peter HOUSDEN *Director General*	52	130 - 135	0-2.5	0-5	2,800	-
Mrs Janice SHINER *# *Director General*	52	100 - 105	0-2.5	0-5	-	-
Mr Peter WANLESS *Director (To 1 February 2003)*	38	75 - 80	0-2.5	15-20	-	-
Mrs Anne JACKSON *Acting Director* *(From 3 February 2003)*	47	10 - 15	0-2.5	15-20	-	-

Notes to the Accounts - continued

2001-02

Officials

Sir Michael BICHARD *Permanent Secretary* *(To 31 May 2001)*	55	55-60	0-2.5	15-20	-
Mr David NORMINGTON *Permanent Secretary*	50	125-130	5-7.5	45-50	-
Mr Peter SHAW *Director General*	52	115-120	2.5-5	40-45	-
Mr Nick STUART *Director General* *(To 7 September 2001)*	59	55-60	0-2.5	30-35	-
Mr Peter MAKEHAM *Director General*	54	105-110	5-7.5	40-45	-
Mrs Susan THOMAS *Director General*	50	95-100	0-2.5	0-5	-
Mr Peter HOUSDEN *Director General* *(From 1 November 2001)*	51	50-55	0-2.5	0-5	600
Mrs Janice SHINER *Director General* *(From 7 January 2002)*	51	20-25	0-2.5	0-5	-
Mr Peter LAUENER *Director General* *(From 7 September 2001 to 6 January 2002)*	47	30-35	2.5-5	20-25	-
Mrs Helen WILLIAMS *Director General* *(From 21 May 2001 to 31 October 2001)*	51	40-45	2.5-5	30-35	-
Mr Peter WANLESS *Director*	37	80-85	2.5-5	15-20	-

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

Salary

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

Pension

(ii) Pension benefits are provided through the Civil Service pension 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***). New entrants after 1 October 2002 may choose between membership of ***premium*** or joining a good quality "money purchase" stakeholder based arrangement with significant employer contribution (***partnership pension account***).

Notes to the Accounts - continued

(a) Classic Scheme

Benefits 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. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of the final pensionable earnings for each year of service. Unlike ***classic***, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of the lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of ***premium***, but with benefits in respect of service before 1 October 2002 calculated broadly as per ***classic***.

Pensions payable under ***classic***, ***premium*** and ***classic plus*** are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the funds as a lump sum.

<u>*Benefits in kind*</u>

(iii) The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. An interest free advance of salary for House Purchase loan was made to a Director General. The outstanding balance at 31 March 2003 was £53,500. The notional interest on this loan is regarded as a taxable benefit.

Notes to the Accounts - continued

3. Other administration costs

	2002-03		2001-02 (Restated)	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	812		626	
Other operating leases	19,288	20,100	19,449	20,075
Non-cash items (administration costs note a & b):				
Depreciation and Amortisation of fixed assets				
Civil Estate	860		813	
Other tangible fixed assets	7,271		7,256	
Intangible fixed assets	765		52	
Permanent diminution in fixed asset values	2,476		1,063	
(Profit) / loss on disposal of fixed assets	81		1,277	
Cost of capital charge:				
Civil Estate	1,831		1,885	
Other items	2,217		116	
Auditor's remuneration	300		350	
Provisions:				
Provided in year	4,224		5,799	
Released unused	(1,933)		(417)	
Unwinding of discount	1,814		2,085	
Total administration non cash items		19,906		20,279
Other expenditure		54,034		64,762
Other administration costs		**94,040**		**105,116**

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

The 'Other expenditure' heading above includes the remuneration paid to Tim Stevenson, one of the Department's non-executive board members. Permission has not been sought to disclose the remuneration details. The second non-executive board member, Lin Homer, did not receive any remuneration directly from the Department.

Note a – the total of non-cash transactions included in the Reconciliation of Operating costs to Operating Cash Flows in Schedule 4 comprises:

	2002-03	2001-02
	£000	£000
Other administration costs – non-cash items (as above)	19,906	20,279
Programme non-cash costs charged to operating expenditure (see note 4)	1,629,281	1,322,502
Less non-cash income		
Profit on sale of fixed assets	(9)	-
Total non-cash transactions	**1,649,178**	**1,342,781**

Note b – the total of non-cash items included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 comprises:

	2002-03
	£000
Total non-cash transactions (as above)	1,649,178
Adjustment for profits and losses on disposal of fixed assets	
Losses on disposal of tangible fixed assets	(81)
Profits on disposal of tangible fixed assets	9
Non-cash items per reconciliation of resources to net cash requirement	1,649,106

Notes to the Accounts - continued

4. Net programme costs

	2002-03	2001-02
	£000	£000
Current grants and other current expenditure	22,021,912	18,265,344
Research and Development costs	11,640	9,515
Cost of Capital on Programmes:	293,347	212,817
gross programme spend	22,326,899	18,478,676
less programme income (note 5)	(137,934)	(201,839)
	22,188,965	18,276,837

Included in programme costs are the following non- cash items		
Cost of Capital on Programmes	293,347	212,817
Provisions (note 20):		
Provided in year	1,084,792	856,432
Release of provision	(4,291)	(13,192)
Unwinding of discount	243,316	198,953
Student loans capitalised interest (note 13)	(125,896)	(145,627)
Student loans domicile adjustment (note 13)	1,763	114,125
Admin charges applied to student loans (note 13)	(1,974)	(2,312)
Repayment of teachers' loans (note 13)	1,464	
Student loan interest subsidy inflation adjustment (note 21)	136,760	115,815
	1,629,281	1,337,011
Elimination of MOG	-	65,776
European Social Fund prior year claim on Reserve adjustment	-	(80,285)
Total programme non cash items	1,629,281	1,322,502

Notes to the Accounts - continued

5. Income and appropriations in aid

Operating income

Operating income not appropriated in aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 7). In 2002-03, all operating income not classified as Appropriations in Aid was within public expenditure.

2002-03

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

2001-02

	Resource Outturn	**Reconciliation to Operating Cost Statement**				**Operating Cost Statement**
Operating income analysed by classification and activity is as follows:	Appropriations in Aid	Transfer of Estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transfers between Requests for Resources	Income
	£000	£000	£000	£000	£000	£000
Administration income:						
Allowable within admin cost limit	(2,263)	-	-	-	-	(2,263)
Fees and charges to external customers	(1)	-	-	-	-	(1)
Other miscellaneous	(4,285)	-	-	-	-	(4,285)
	(6,549)	-	-	-	-	(6,549)
Programme income:						
Other income	(192,681)	-	-	(9,158)	-	(201,839)
Total	**(199,230)**	**-**	**-**	**(9,158)**	**-**	**(208,388)**

Notes to the Accounts - continued

Non-operating income not classified as Appropriations in Aid

	2002-03 Income	2002-03 Receipts	2001-02 Income	2001-02 Receipts
	£000	£000	£000	£000
Student loans interest repayments	46,485	39,655	35,027	32,864

Non-operating Appropriations in Aid

	2002-03 Income	2002-03 Receipts	2001-02 Income	2001-02 Receipts
	£000	£000	£000	£000
Principal repayments of student loans	285,554	243,592	215,166	193,587
Principal repayments of loans to schools	1,355	1,364	1,271	1,271
Proceeds from disposal of fixed assets	39	39	1,565	1,565
	286,948	244,995	218,002	196,423

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

	2002-03 Income	2002-03 Full Cost	2002-03 Surplus/ Deficit	2001-02 Net Income	2001-02 Full Cost	2001-02 Surplus/ Deficit
	£000	£000	£000	£000	£000	£000
Careers Services	(891)	1,471	580	(1,036)	1,275	239
Department for Work and Pensions	(27)	27	-	-	-	-
	(918)	1,498	580	(1,036)	1,275	239

6. Administration cost limits

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

	2002-03 Outturn	2002-03 Limits	2001-02 Outturn	2001-02 Limits
	£000	£000	£000	£000
Request for resources 1 (gross limit)	205,889	211,046	214,145	219,730
Request for resources 2 (gross limit)	5,290	6,455	3,677	3,890
Request for resources 3 (gross limit)	4,665	3,924	2,337	2,491
	215,844	**221,425**	**220,159**	**226,111**
Administration Expenditure excluded from administration cost limit	**20,610**			
Administration Income Allowable within the administration cost limit	**2,035**			
Total administration outturn	**238,489**			

Notes to the Accounts - continued

7. Reconciliation of net operating cost to control total and net resource outturn

	2002-03	2001-02
	£000	£000
Net operating cost (note a)	**22,420,637**	**18,510,047**
Add: - Excess Appropriations in Aid (Note 5)	105,992	
Add: - operating income not classified as A in A but within public expenditure (note 5) (All other CFERs not including student loans)	990	9,158
Add: - transfer of Estimate cover in respect of the functions transferred to DWP, DTI, Home Office and Cabinet Office	-	2,428,318
Net resource outturn (note a)	**22,527,619**	**20,947,523**

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

8. Analysis of net operating cost by spending body

	2002-03 Budget	2002-03 Outturn	2001-02 Outturn
	£000	£000	£000
Spending body:			
Non Departmental Public Bodies (NDPBs):			
Adult Learning Inspectorate (ALI)	25,400	23,804	15,358
British Educational Communications and Technology Agency (BETCA)	4,800	4,843	4,844
Higher Education Funding Council for England (HEFCE)	4,962,300	5,083,649	4,680,194
Investors in People UK Ltd (IiP UK)	1,700	1,625	1,681
Learning and Skills Council (LSC)	7,622,400	7,535,543	5,377,099
National College for School Leadership (NCSL)	61,200	60,500	26,500
Qualifications and Curriculum Authority (QCA)	69,900	77,815	71,173
Sector Skills Development Agency (SSDA)	22,700	14,737	-
Student Loans Company Ltd (SLC)	31,200	31,681	27,650
Teacher Training Agency (TTA)	384,500	427,166	411,266
Public Corporations:			
General Teaching Council (GTC)	3,500	3,752	9,468
Local Authorities	5,254,361	5,357,792	4,469,466
Other DfES	4,710,423	3,797,730	3,415,348
Total	**23,154,384**	**22,420,637**	**18,510,047**

Notes to the Accounts - continued

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

2002-03

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources – 1 To help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; and achieving excellence in standards of education and levels of skills								
A Support for Schools and Teachers not paid through LEAs		11,588	427,001	438,589	(2,918)	435,671	639,340	203,669
B Childcare			161,272	161,272		161,272	184,000	22,728
C Support for Young People		431,125	98,240	529,365	(2,250)	527,115	593,431	66,316
D Higher Education		7,014	115,387	122,401	(3,689)	118,712	156,389	37,677
E Further Education, Adult Learning and Lifelong Skills		71,171	245,560	316,731	(21,557)	295,174	476,950	181,776
F Support for Students in Higher Education			1,578,783	1,578,783		1,578,783	1,516,132	(62,651)
G Activities to support all functions	207,924	33,743	1,100	242,767	(7,013)	235,754	237,850	2,096
H Compensation to former College of Education Staff			11,290	11,290		11,290	10,951	(339)
I Grants for LEAs to support Schools and Teachers			3,435,302	3,435,302	(143)	3,435,159	3,317,777	(117,382)
J Higher Education Fees and Awards through LEAs			89,064	89,064		89,064	72,699	(16,365)
K Education Maintenance Allowances			122,040	122,040		122,040	186,305	64,265
L Learning Partnership Fund			5,567	5,567		5,567	6,300	733
M Cost of Capital, Depreciation and Provisions	12,848	1,872	(16,962)	(2,242)	(199)	(2,441)	13,889	16,330
N Capital Grants to Schools and other Educational Institutions plus GIA to NDPBs			2,382,806	2,382,806		2,382,806	2,353,973	(28,833)
O Childcare Capital			749	749		749	3,000	2,251
P Capital Support for Young People			5,351	5,351		5,351	8,020	2,669
Q Loans, Capital Grants and GIA to NDPBs supporting Higher Education			5,095,833	5,095,833		5,095,833	4,998,397	(97,436)
R Capital Grants Supporting Further & Adult Education & GIA to NDPBs			7,674,465	7,674,465		7,674,465	7,779,724	105,259
Total	**220,772**	**556,513**	**21,432,848**	**22,210,133**	**(37,769)**	**22,172,364**	**22,555,127**	**382,763**
Request for Resources 2 – Promoting physical, intellectual and social development of babies, and their families and young children through Sure Start								
A Sure Start Administration and Current Grants	5,290	4,394	174,278	183,962	-	183,962	286,163	102,201
B Depreciation and Cost of Capital		134		134	-	134	111	(23)
C Sure Start Capital Grants			31,276	31,276	-	31,276	162,983	131,707
Total	**5,290**	**4,528**	**205,554**	**215,372**	**-**	**215,372**	**449,257**	**233,885**
Request for Resources 3 – Tackling child poverty and social exclusion by helping vulnerable children and young people, and their families to break the cycle of deprivation and disadvantage through the Children's Fund								
A The Children's Fund	4,665		135,218	139,883		139,883	150,000	10,117
Total	**4,665**	**-**	**135,218**	**139,883**	**-**	**139,883**	**150,000**	**10,117**
Resource Outturn	**230,727**	**561,041**	**21,773,620**	**22,565,388**	**(37,769)**	**22,527,619**	**23,154,384**	**626,765**
Reconciliation to Operating Cost Statement								
Non - Supply Expenditure						-		
Income payable to the Consolidated Fund					(990)	**(990)**		
Excess A in A					(105,992)	**(105,992)**		
Gross Operating Expenditure				**22,565,388**				
Operating Income					**(144,751)**			
Net Operating Cost						**22,420,637**		

Notes to the Accounts - continued

Note 9 - Continued

2001-02

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 - Giving everyone the chance through education, training and work, to realise their full potential and thus build an inclusive and fair society								
A – Schools		116,235	428,483	544,718	(10,451)	534,267	1,162,944	628,677
B - Post 16		446,303	582,648	1,028,951	(192,352)	836,599	1,047,034	210,435
C - Student Support			1,336,930	1,336,930		1,336,930	1,476,577	139,647
D - (ESF transferred to DWP)				-		-	-	-
E - (ESF transferred to DWP)				-		-	-	-
F - (Employment & Equality MOG transfer)				-		-	-	-
G - Admin Costs	211,808	26,765	889	239,462	(6,830)	232,632	244,507	11,875
H - FE staff compensation			11,489	11,489		11,489	11,161	(328)
I - LA schools payments			2,888,133	2,888,133	(198)	2,887,935	2,473,314	(414,621)
J - Mandatory awards			126,891	126,891		126,891	121,800	(5,091)
K - (ESF transferred to DWP)				-		-	-	-
L - (ESF payments transferred to DWP)				-		-	-	-
M - Adult Education			112,712	112,712		112,712	170,925	58,213
N - (New Deal transferred to DWP)				-		-	-	-
O - non cash admin costs	3,620			3,620		3,620	12,389	8,769
P - VA schools interest repayment				-	(291)	(291)	(294)	(3)
Q - Schools capital grants			1,890,255	1,890,255		1,890,255	2,111,515	221,260
R - Student Loans and capital grants			10,362,825	10,362,825	10,892	10,373,717	10,435,728	62,011
S - (Equality progs MOG transfers)				-		-	-	-
T - Loss on disposal of assets		1,199		1,199		1,199	1,200	1
U - (ESF receipts transferred to DWP)				-		-	-	-
V - Transfer payment to DWP		133,507		133,507		133,507	133,507	-
W - Transfer payment to Home Office		4,590		4,590		4,590	4,590	-
X - Transfer payment to DTI		8,832		8,832		8,832	8,775	(57)
Y - Transfer payment to Cabinet Office		9,234		9,234		9,234	9,234	-
Total	**215,428**	**746,665**	**17,741,255**	**18,703,348**	**(199,230)**	**18,504,118**	**19,424,906**	**920,788**

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
Request for Resources 2 - Helping people without a job into work through the Employment Service(Transferred to DWP)								
Function A				-		-	-	-
Function B				-		-	-	-
Function C				-		-	-	-
Function D				-		-	-	-
Function E				-		-	-	-
Function G				-		-	-	-
Function H				-		-	-	-
Function I – Transfer Resources to DWP		2,272,155		2,272,155		2,272,155	2,272,155	-
Total	**-**	**2,272,155**	**-**	**2,272,155**	**-**	**2,272,155**	**2,272,155**	**-**

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
Request for Resources 3 - Promoting physical, intellectual and social development of babies, and their families and young children through Sure Start								
A – Sure Start	3,677	3,297	105,447	112,421		112,421	125,833	13,412
B – Sure Start Capital Grants			21,472	21,472		21,472	79,445	57,973
Total	**3,677**	**3,297**	**126,919**	**133,893**	**-**	**133,893**	**205,278**	**71,385**

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn Compared with Estimate
Request for Resources 4 - Tackling child poverty and social exclusion by helping vulnerable children and young people, and their families to break the cycle of deprivation and disadvantage through the Children's Fund								
A - Children's Fund	2,337		35,020	37,357		37,357	100,002	62,645
Total	**2,337**	**-**	**35,020**	**37,357**	**-**	**37,357**	**100,002**	**62,645**
Resource Outturn	**221,442**	**3,022,117**	**17,903,194**	**21,146,753**	**(199,230)**	**20,947,523**	**22,002,341**	**1,054,818**

Notes to the Accounts - continued

Note 9 - Continued

Reconciliation to Operating Cost Statement						
Non - Supply Expenditure	-	-	-		-	**-**
Income payable to the Consolidated Fund					(9,158)	**(9,158)**
Excess A in A						
Transfer to DWP	-	(133,507)	-	(133,507)		**(133,507)**
Transfer to Home Office	-	(4,590)	-	(4,590)		**(4,590)**
Transfer to DTI	-	(8,832)	-	(8,832)		**(8,832)**
Transfer to Cabinet Office	-	(9,234)	-	(9,234)		**(9,234)**
Transfer of ES to DWP	-	(2,272,155)	-	(2,272,155)		**(2,272,155)**
Gross Operating Expenditure				**18,718,435**		
Operating Income					**(208,388)**	
Net Operating Cost						**18,510,047**

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

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

	2001-02			
	Capital Expenditure	**Loans etc**	**A in A**	**Net Total**
	£000	£000	£000	£000
Request for resources 1	30,891	2,117,714	(218,002)	1,930,603
Request for resources 2	1,018			1,018
Request for resources 3				-
Total	**31,909**	**2,117,714**	**(218,002)**	**1,931,621**
Non A in A income from disposal of fixed assets.				(3)
				1,931,618

Notes to the Accounts - continued

11. Tangible fixed assets

	Land & Buildings	Plant & Machinery	Information Technology	Transport Equipment	Furniture & Fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2002	55,050	466	24,254	613	11,468	91,851
Additions	4,082	67	7,712	115	3,076	15,052
Disposals	-	(217)	(404)	(232)	(4)	(857)
Revaluations	2,942	30	(678)	31	138	2,463
At 31 March 2003	**62,074**	**346**	**30,884**	**527**	**14,678**	**108,509**
Depreciation						
At 1 April 2002	1,746	385	12,454	296	4,348	19,229
Provided in year	1,338	24	5,443	90	1,236	8,131
Disposals	-	(210)	(363)	(170)	(3)	(746)
Revaluations	89	23	(304)	23	57	(112)
At 31 March 2003	**3,173**	**222**	**17,230**	**239**	**5,638**	**26,502**
Net book value						
At 1 April 2002	53,304	81	11,800	317	7,120	72,622
At 31 March 2003	**58,901**	**124**	**13,654**	**288**	**9,040**	**82,007**
Asset financing:						
Owned	58,901	124	13,654	288	9,040	82,007
Net book value at 31 March 2003	**58,901**	**124**	**13,654**	**288**	**9,040**	**82,007**

The Department's surveyors, Donaldson's, revalue the land and buildings on an existing use basis in accordance with the RICS Appraisal and Valuation Manual. During the year no property was professionally revalued, and all other tangible assets were revalued on the basis of monthly indices, provided by the Office for National Statistics. The Department is not aware of any material change to the valuation of the property since the last professional valuation by Donaldsons, Chartered Surveyors in 2000.

The £15,052,000 in-year additions includes assets totalling £31,000 which were transferred in from the Home Office during 2002-03 at no cost to the Department. The total additions excluding the transfers, £15,021,000, has been used to calculate the value of in-year acquisitions in Schedule 1 and other notes.

Notes to the Accounts - continued

12. Intangible fixed assets

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

	Purchased software licences
	£000
Cost or Valuation	
At 1 April 2002	592
Additions	2,159
Disposals	-
Revaluations	(89)
At 31 March 2003	**2,662**
Amortisation	
At 1 April 2002	204
Charged in year	765
Disposals	-
Revaluations	(11)
At 31 March 2003	**958**
Net book value	
At 1 April 2002	388
At 31 March 2003	**1,704**

13. Loans

	Students	Section 255	Schedule 3	Total
	£000	£000	£000	£000
Balance at 1 April 2002	6,862,152	650	1,558	6,864,360
Amounts previously transferred to debtors 2001-02 (note 17)	341,047	634	79	341,760
Total loans outstanding at 1 April 2002	**7,203,199**	**1,284**	**1,637**	**7,206,120**
Student loans domicile adjustment	(1,763)			(1,763)
New loans	2,292,663			2,292,663
Interest added	125,896			125,896
Admin charge applied	1,974			1,974
Repayments	(296,129)	(633)	(722)	(297,484)
Unallocated Repayments	(35,910)			(35,910)
Write offs	(2,167)			(2,167)
Unallocated Repayment of Teachers Loans	(1,464)			(1,464)
Balance at 31 March 2003	**9,286,299**	**651**	**915**	**9,287,865**
Amounts repayable in 1 year transferred to debtors	560,465	651	61	561,177
Balance repayable at 31 March 2003 after one year	**8,725,834**	**-**	**854**	**8,726,688**

Student loans are part of the government's package of financial support to students embarking on a course of higher education to help student meet the cost of living. The Student Loan Company issues and administers the loans on behalf of DfES, the Student Awards Agency for Scotland and the Department for Employment and Learning Northern Ireland. The DfES accounts only include the balance of loans students domiciled in England and Wales. The figures above include non cash repayment transactions relating to the pilot initiative called the Repayment of Teachers' Loans Scheme (RTL) which was set up in 2002-03 and will run until 2005-06. Under the terms of the scheme the Department meets the cost of repaying newly qualified teachers' student loans if they meet certain criteria e.g. they must be employed in specific shortage subjects.

Notes to the Accounts - continued

13. Loans (continued)

The Section 255 loans were issued by the Funding Agency for Schools (FAS) from money provided by the Department to help grant maintained schools fund capital projects. Responsibility for administering the loans transferred to the Department on 31 March 2000. At 31 March 2003 there were 22 outstanding loans (23 in 2001-02).

The Schedule 3 loans (formally known as 105 loans) are loans issued to voluntary schools for capital projects under Schedule 3 of the Schools Standards & Framework Act 1998. At 31 March 2003 there were 9 outstanding loans (13 in 2001-02).

14. Investment

	Partnerships for Church of England Schools
	£000
Share Capital	225
Working Capital	299
	524

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

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

The Department has provided working capital to the company during its set up phase so that it can operate until PFI/PPP contracts are in place. PfCS will earn fees from the contracts which will be used to provide dividends to the partners and to repay the working capital loan.

Notes to the Accounts - continued

15. Movements in working capital other than cash

	2002-03	2001-02
	£000	£000
Increase/(decrease) in stocks/work in progress	233	315
Increase/(decrease) in debtors (exc. debtors loans repayable within 1 year)	(14,065)	(6,764)
(Increase)/decrease in creditors (exc. cash payable to the Consolidated Fund)	16,177	(112,293)
Non operating student loan interest adjustment	(123)	
Movement in working capital other than cash (Schedule 4)	**2,222**	**(118,742)**
Adjustment to movement in working capital not related to supply:		
CFER not yet received (Note 19)	**(35,597)**	**(2,224)**
Transitional adjustment	**383**	
Non operating student loan interest adjustment	**123**	
	(32,869)	**(120,966)**

16. Stocks and works in progress

	2002-03	2001-02
	£000	£000
Stocks	1,032	799
	1,032	799

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

17. Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
VAT	33,261	16,812
Trade debtors	36,652	6,280
Deposits and advances	2,035	26,158
Other debtors	2,470	2,623
Prepayments and accrued income	118,263	149,180
	192,681	201,053
Amounts falling due after more than 1 year:		
Prepayment of early departure pre-funding	9,840	15,533
	202,521	216,586
Transfer of loans repayable within one year (note 13)	561,177	341,760

Included within current assets is £35,597,000 (2001-02: £2,224,000) that will be due to the Consolidated Fund once the debts are collected.

Notes to the Accounts - continued

18. Cash at bank and in hand

	2002-03	2001-02
	£000	£000
Balance at 1 April	193,475	8,889
Net change in cash balances	(60,252)	184,586
Balance at 31 March	**133,223**	**193,475**
The following balances at 31 March are held at:		
Office of HM Paymaster General	133,122	193,435
Commercial banks and cash in hand	101	40
	133,223	**193,475**

Balance at 31 March

The balance at 31 March comprises:
Cash due to be paid to the Consolidated Fund:

	2002-03	2001-02
Amounts issued from the Consolidated Fund for supply but not spent at year end	42,621	171,961
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	90,602	20,933
Cash due to be paid to the Contingencies Fund	-	581
	133,223	**193,475**

19. Creditors

Amounts falling due within one year:	2002-03	2001-02
	£000	£000
Other taxation and social security	-	57
Other creditors	387,168	410,610
MOG creditors	-	9,212
Department for Work and Pensions	8,234	-
Accruals and deferred income	50,708	42,989
Consolidated Fund Receipts not yet paid over	90,602	20,933
Amounts issued from the Consolidated Fund for supply but not spent at year end	42,621	171,961
Amounts issued from the Contingencies Fund due for repayment	-	581
Consolidated Fund income not yet received	35,597	2,224
	614,930	**658,567**

Notes to the Accounts - continued

20. Provisions for liabilities and charges

	Early Departure cost	Student loans write off	Student loans interest subsidy	Student loans debt sale subsidy	Residual TEC property provision	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2002	43,921	823,246	1,593,670	656,019	1,164	3,118,020
Provided in year	4,224	123,163	959,151		2,478	1,089,016
Provision not required written back	(1,933)			(4,291)		(6,224)
Provision utilised in the year	(12,535)	(2,167)	(544,403)	(88,963)	(253)	(648,321)
Unwinding of discount	1,814	69,465	134,474	39,309	70	245,132
Balance at 31 March 2003	**35,491**	**1,013,707**	**2,142,892**	**602,074**	**3,459**	**3,797,623**

Early departure costs

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

There are additional discounted early departure costs of £10.9m which are funded under the 80/20 scheme approved by the Treasury.

Student loans

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

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

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

TEC properties

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

Notes to the Accounts - continued

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

		2002-03		2001-02
	£000	£000	£000	£000
Net Operating cost for the year (Schedule 2)	(22,420,637)		(18,510,047)	
Machinery of Government Changes	-		(2,428,318)	
Income not appropriated in aid payable to Consolidated Fund	(153,467)		(44,185)	
		(22,574,104)		(20,982,550)
Net parliamentary funding		23,557,765		22,065,843
Non-cash charges:				
Cost of capital	297,395		214,818	
Auditor's remuneration	300		350	
Student loan interest subsidy inflation adjustment	136,760		115,815	
Machinery of Government Changes (net)			(14,553)	
Transferred to general fund of realised element of revaluation reserve (note 22)	134			
Assets sold as CFER	-		(3)	
Assets transferred from Home Office	31			
Advances from the Contingencies Fund			(581)	
Repayments to the Contingencies Fund	581			
Amounts issued from the Consolidated Fund for supply but not spent at year end	(42,621)		(171,961)	
Transition from cash to resource based supply	(383)			
Consolidated Fund income not yet received			(2,224)	
Consolidated Fund income received	2,224			
		394,421		141,661
Net increase in General Fund		**1,378,082**		**1,224,954**
General Fund at 1 April		3,914,564		2,689,610
General Fund at 31 March (Schedule 3)		**5,292,646**		**3,914,564**

22. Revaluation reserve

	2002-03	2001-02
	£000	£000
Balance at 1 April	(1,161)	(347)
Arising on revaluation during the year (net)	4,972	(814)
Transferred to the general fund in respect of realised element of revaluation reserve (note 21)	(134)	-
Balance at 31 March	**3,677**	**(1,161)**

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

Notes to the Accounts - continued

23. Notes to Schedule 5

Following the Machinery of Government Changes in 2001-02 the Department set new objectives in line with its new responsibilities and priorities. The new aims and objectives were published in the booklet *Education and Skills: Delivering Results a Strategy to 2006*. This has resulted in the 2001-02 comparative figures being restated to reflect the new objectives.

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

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

	2002-03	2001-02
	£000	£000
Objective 1	3,928,152	3,099,320
Objective 2	8,961,011	6,739,352
Objective 3	9,007,445	8,438,165
Total	**21,896,608**	**18,276,837**

With the exception of the Sure Start computer system used solely for Objective 1, the National College for School Leadership property and loans to schools used for Objectives 1 and 2, and Student Loans used solely for Objective 3, the capital is employed almost exclusively for administration purposes Capital employed has therefore been allocated to objectives in proportion to gross administration costs except for the capital employed of the above mentioned items that have been directly allocated.

Capital Employed by Departmental Objective

	2002-03	2001-02
	£000	£000
Objective 1	(50,846)	(53,689)
Objective 2	(47,330)	(59,603)
Objective 3	5,419,693	4,026,695
Total	**5,321,517**	**3,913,403**

24. Capital commitments

	2002-03	2001-02
	£000	£000
Contracted and approved commitments at 31 March 2003 for which no provision has been made	-	1,591

Notes to the Accounts - continued

25. Commitments under leases

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

	2002-03	2001-02
	£000	£000
Obligations under operating leases comprise:		
Land and Buildings		
Expiry within 1 year	270	46
Expiry after 1 year but not more than 5 years	1,593	1,486
Expiry thereafter	30,563	22,261
	32,426	**23,793**
Other		
Expiry within 1 year	95	12
Expiry after 1 year but not more than 5 years	390	453
Expiry thereafter	-	-
	485	**465**

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

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 2002	Increase in Year	Liabilities crystallised in year	Obligation expired in year	31 March 2003	Amount reported to Parliament by departmental minute
	£000	£000	£000	£000	£000	£000
Indemnities						
The Department will meet the accrued Civil Service redundancy entitlement to date of resignation of secondees who resigned from the Department to take up Training and Enterprise (TEC) employment on or after 1 January 1993 in TECs in England and Wales if: a their TEC makes them redundant due to direct government action during their first five years of employment b a court or tribunal ever ruled that TEC and civil service employment were continuous for redundancy calculation purposes. The Department has and will continue to give indemnities to Training and Enterprises Councils (TECs), Chamber of Commerce Training and Enterprise Councils (CCTEs), their representative TEC bodies and those concerned with the wind up, transfer or continuation of TEC delivered activity, where this will facilitate	6,000				6,000	

the conclusion of the working and contractual relationship between TECs, CCTEs and Government, thereby ensuring the continuation of essential discretionary activity and the return of residual reserves owing to the Secretary of State at the earliest opportunity.

The indemnities will include:

- Liabilities that arise from audit work carried in respect of the delivery of activities funded through European Union initiatives or through Single Regeneration Budget and other schemes sponsored by Government Departments other than DfES and DTI;	136,600	14,600			151,200
- Liabilities that arise from the transfer of TEC/CCTE functions to successors, including from staff who have transferred or been made redundant, and who as a result of the transfer seek redress through the Employment Tribunal;	6,900			400	6,500
- Liabilities arising from properties leased by TECs/CCTEs that they have been unable to dispose of by the time they wind up. The Department may take over these leases and dispose of them on behalf of the TECs/CCTEs.	1,800	5,900			7,700
In order to ensure the Croydon Local Learning and Skills Council (LLSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CCTE) property exists in the Croydon LLSC area an indemnity to give a landlord a guarantee that, in the event of the Learning and Skills Council (LSC) ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	6,880				6,880
In order to ensure the Learning and Skills Council (LSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training Enterprise (CCTE) property exists in Brighton, Manchester or Coventry area an indemnity to give landlords a guarantee that, in the event of the LSC ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	76,000				76,000
In order to ensure that Adult Learning Inspectorate (ALI) commenced operations in April 2001 and because no suitable Departmental property exists in the Coventry area and indemnity to give landlords a guarantee that, in the event of ALI ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the ALI is and unknown body with no financial history.	5,600	200			5,800

An indemnity to cover the cost of re-assessing trainees who are disadvantaged by flaws in the awarding of National Vocational Qualifications by the Road Transport Industry Training Board.	390		390	
Arrangements to allow the appointment of a receiver to manage the affairs of Nottingham Enterprise Ltd (formerly North Nottingham TEC).	2,000		2,000	2,000
Contract with CfBT for the provision of services relating to the government's drive to raise standards through primary and Key Stage 3 Strategies.	560		560	560

27. Related party transactions

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

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

In addition, the DfES has had various material transactions its Public Corporation, the General Teaching Council, and with Other Government Departments. Most of these transactions are with the Department for Work and Pensions, Department for Trade and Industry and the Office of the Deputy Prime Minister.

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

28. Losses, special payments and share acquisition

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

	No. of cases	**£000**
Total	102	2,416
There are no cases individually valued at over £100,000		
Special Payments	74	300
Total	137	437
There are no cases individually valued at over £100,000		

Other Notes

Loans remitted (written off) in year

Loans totalling £2,573,000 issued by the Student Loans Company were remitted during the year mainly due to 672 deaths (£2,067,000) and 197 disabled borrowers (£337,000). Of this total £2,167,000 is attributable to funds provided from Estimate Line Q. See note 13 for further information on student loans. The remainder is attributed to the separate Estimates for the Student Awards Agency for Scotland (£366,000) and the Department for Employment and Learning Northern Ireland (£40,000).

Notes to the Accounts - continued

28. Losses, special payments and share acquisition - continued

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

	£
Shared held at 1 April 2002	5
In Year Acquisition	225,000
Total Shares held at 31 March 2003	225,005

The closing balance of shares held by the Department comprises:

5 ordinary shares of £1 in the Student Loan Company Limited
225,000 ordinary shares of £1 in Partnerships for Church of England Schools Ltd (PfCE). Note 14 contains further information on the investment in PfCE.

29. Financial instruments

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

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

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

Foreign currency risk
The Department's exposure to foreign currency risk is negligible. The foreign currency income received by the Department is negligible and foreign currency expenditure is less than 0.06% of total 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 2003.

	Book Value	**Fair Value**	**Basis of fair valuation**
	£000	£000	£000
Primary financial instruments:			
Financial assets			
Cash at Bank	133,223	133,223	
Student Loans	9,286,299	9,286,299	note a
Loans to former grant maintained schools	651	651	note b
Loans to voluntary aided schools	915	915	note b
Financial liabilities			
Provisions	(3,797,623)	(3,797,623)	note c

Notes to the Accounts - continued

29. Financial instruments - continued

Notes:

a The student loans interest rate is revised annually, so the fair value is not significantly different from the book value.

b Schools are charged fixed rate interest based on the government lending rate on the day the loan was issued. There is no significant difference between the interest rate charged to the schools and the current rate of interest, so the fair value is not significantly different to the book value.

c The fair value of the provisions is not significantly different from the book value since, in the calculation of the book value, the expected cash flows have been discounted by the Treasury discount rate of 6% in real terms.

30. Entities within the Departmental boundary

The entities within the boundary during 2002-03 are the main Department, including the Sure Start Unit and the Children and Young People's Unit. The expenditure for these units is included in these accounts and disclosed separately under Requests for Resource 2 and 3. They do not publish separate accounts.

31. Dispersal of TEC reserves

During the year the Department has continued to work with our partners to dispose of the TEC reserves and the outstanding balance has reduced from £57.3 million to £12.8 million. The cumulative total amounts dispersed from TEC Reserves are as follows:

	Note	Liquid Attributable Reserves	Attributable Fixed Assets	Non-Attributable Liquid Reserves	Non-Attributable Fixed Assets	Total
		£000	£000	£000	£000	£000
ILA Commitments repaid to the department		122,779				122,779
Legacy payments to National and Local LSC offices		69,671	5,389	1,502		76,562
TEC contribution to National Transition Costs		37,236				37,236
Assets transferred to Continuing Entities		3,033	3,589	8,633	10,581	25,836
Assets transferred to Business links		5,830	997	7,456	1,472	15,755
Assets transferred to Chamber of Commerce		863	275	3,834	578	5,550
Other	1	12,216	1,335	2,025	120	15,696
Reserves distributed		**251,628**	**11,585**	**23,450**	**12,751**	**299,414**
Outstanding reserves						
Attributable Funds held by liquidators		11,976				11,976
Attributable Funds in TECs yet to appoint liquidators		-				-
Attributable Funds held by Continuing TECs	2	864				864
Outstanding reserves to be repaid to the department		**12,840**				**12,840**
Total TEC reserves		**264,468**	**11,585**	**23,450**	**12,751**	**312,254**

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

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

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