

# **Home Office Resource Accounts**

## **2005-06**

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**Home Office**

**Resource Accounts**

**2005-06**

**(For the year ended 31 March 2006)**

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## Annual Report

### SCOPE

#### Principal activities

The central headquarters of the Home Office sets the framework of objectives, financial allocations, strategy and performance management for the key services that the Home Secretary is responsible for, along with providing common support services and driving delivery toward objectives. The Home Office group also comprises two large public services – National Offender Management Service (NOMS) and Immigration & Nationality – and has national responsibility for the Police service in England and Wales. The Home Office also has responsibility for a number of smaller services, including UK Passport Service, Criminal Records Bureau and the Forensic Science Service, as well as lead responsibility for a number of Non-departmental Public Bodies (as listed on pages 4 and 5).

The Home Office relies on Parliamentary voted funding to finance its operations.

#### Aims and objectives

The Home Office is the Government department responsible for internal affairs in England and Wales. The Home Office has three main pillars of responsibility: the first being policing, security and community safety; the second criminal justice and offender management; and the third, immigration, citizenship and nationality. Our purpose is to build a safe, just and tolerant society, to enhance opportunities for all, and to ensure that the protection and security of the public are maintained and enhanced.

During 2005-06, the Home Office had five Strategic Objectives, first set out in its five year Strategic Plan, *Confident Communities in a Secure Britain*, which set out the objectives and the programme of reforms and investments to deliver them. These are set out below:

Objective 1 – People are and feel more secure in their daily lives.

Objective 2 – More offenders are caught, punished and stop offending and victims are better supported.

Objective 3 – Fewer people's lives are ruined by drugs and alcohol.

Objective 4 – Migration is managed to benefit the UK, while preventing abuse of immigration laws and of the asylum system.

Objective 5 – Citizens, communities and the voluntary sector are more fully engaged in tackling social problems, and there is more equality of opportunity and respect for people of all races and religions.

#### Departmental Report

The Home Office Departmental Report for 2005-06 was presented to Parliament in July 2006. This covers the Home Office strategic objectives and main activities, performance against Public Service Agreement (PSA) targets in 2005-06 and expenditure plans for 2005-06 to 2007-08. The Report is available from The Stationery Office (CM 6818) or from the Home Office website at [www.homeoffice.gov.uk](http://www.homeoffice.gov.uk).

#### Entities consolidated

The Home Office departmental accounting boundary encompasses the central Government department, three executive agencies and the National Probation Service. The executive agencies are HM Prison Service, the UK Passport Service and the Criminal Records Bureau. The accounts of all of these entities form part of the Home Office's consolidated financial statements. In 2004 the Home Office established the National Offender Management Service (NOMS) to balance the demand for and capacity of correctional services, and to provide a more integrated service. NOMS covers a number of organisations, including prisons and probation, to ensure that a range of services are available to adult offenders and to those on remand throughout England and Wales. However, during 2005-06 both HM Prison Service and the National Probation Service produced separate annual accounts that were laid before Parliament.

**HM Prison Service (HMPS)**

HMPS is responsible for providing prison services in England and Wales. It works in pursuit of the Home Office Strategic Objective 2 by ensuring that offenders and those remanded in custody are supervised in such a way as to protect the public and by giving offenders the opportunity to lead law-abiding, productive and healthy lives.

**National Probation Service (NPS)**

The NPS is a key statutory criminal justice service working in a highly collaborative way with the police and prison services as well as the Crown Prosecution Service, courts, local authorities, health, education, housing and a wide range of independent and voluntary sector partners in support of Strategic Objective 2.

**UK Passport Service (UKPS)**

UKPS supports the delivery of the Home Office Strategic Objective 4 and is responsible for providing passport services for British Nationals in the United Kingdom promptly and economically. UKPS's primary objective is to provide the best possible service to its customers while maintaining the integrity of the British passport.

**Criminal Records Bureau (CRB)**

The CRB helps protect children and other vulnerable people through safer recruitment by making information from police records and other data sources more readily available to employers, ensuring greater consistency of vetting in support of Strategic Objective 1.

**Entities not consolidated**

Public bodies for which the Home Office had lead policy responsibility during 2005-06 within Government, but which are outside of the consolidation boundary for accounting purposes, are set out below. Non Departmental Public Bodies (NDPBs) are reflected in the Home Office accounts by the inclusion of funds paid to them as grants or expenses. The Forensic Science Service, executive NDPBs and Criminal Injuries Compensation Appeals Panel publish their own annual reports and accounts which can be obtained from The Stationery Office or the relevant body.

**Forensic Science Service (FSS)**

FSS is principally responsible for supplying scientific support for criminal investigations and for providing expert evidence to the courts. During the year FSS became a Government owned company prior to development as a private sector classified Public Private Partnership (PPP), having previously been a Trading Fund. FSS is treated as an investment on the Balance Sheet.

**Non-departmental Public Bodies (NDPBs):**

**Executive NDPBs:** these carry out a wide variety of administrative, regulatory and commercial functions. They generally operated under statutory provisions, employed their own staff and had responsibility for their own budgets.

- Central Police Training & Development Authority (CENTREX)
- Commission for Racial Equality
- Community Development Foundation
- Criminal Cases Review Commission
- Criminal Injuries Compensation Authority
- Independent Policy Complaints Commission
- Office of the Immigration Services Commissioner
- Parole Board for England and Wales
- Police Information Technology Organisation
- National Criminal Intelligence Service
- National Crime Squad
- Security Industry Authority
- Youth Justice Board for England and Wales

**Advisory NDPBs:** these are generally set up administratively by Ministers to advise them and their departments on matters within their sphere of interest. Some Royal Commissions are classified as advisory NDPBs, but departmental committees of officials are not. Generally, advisory NDPBs are supported by staff from within the sponsor department, and do not incur expenditure on their own account.

- Advisory Board on Restricted Patients
- Advisory Council on the Misuse of Drugs
- Animal Procedures Committee
- Correctional Services Accreditation Panel
- Poisons Board (in abeyance)
- Police Advisory Board for England Wales
- Police Negotiating Board
- Race Equality Advisory Panel
- RIPA Technical Advisory Board
- Sentencing Advisory Panel
- Sentencing Guidelines Council
- Victims Advisory Panel

**Tribunal NDPBs:** these are bodies with jurisdiction in a specialised field of law. Tribunals generally operate under statutory provisions and, independently of the Executive, decide the rights and obligations of private citizens towards each other or towards a Government department or other public authority. In general, tribunals are serviced by staff from the sponsor department or other public authority. There are two types of tribunal system: standing tribunals, which have a permanent membership; and tribunals that are convened from panels, so that the actual number of tribunals sitting varies. Although their functions are essentially judicial, they are not part of the Courts.

- Criminal Injuries Compensation Appeals Panel
- Investigatory Powers Tribunal
- Office of Surveillance Commissioners
- Police Arbitration Tribunal
- Police Discipline Appeals Tribunal

**Other NDPBs:** Independent Monitoring Boards perform a vital 'watchdog' role on behalf of Ministers and the general public in providing a lay and independent oversight of prisons and immigration removal centres.

Independent Monitoring Board of Penal Establishments and Immigration Centres (formerly the Board of Visitors to Penal Establishments and Visiting Committee Immigration Detention/Reception Centres)

#### Other Public Bodies

- Annual Reviewer of the Terrorism Act 2000
- Annual Reviewer of the Part 4 of the Anti-Terrorism Crime and Security Act 2001
- Annual Reviewer of the Criminal Justice (Conspiracy and Terrorism) Act 1998
- Asylum Support Adjudicators
- Charity Commission
- Criminal Justice Consultative Council
- HM Chief Inspector of Prisons
- HM Chief Inspector of Probation
- HM Inspectorate of Constabulary
- IND Complaints Audit Committee
- Independent Assessor for Miscarriage of Justice Compensation
- Independent Race Monitor
- Intelligence Services Commissioner
- Interception of Communications Commissioner
- Metropolitan Police Authority
- Ministerial Advisory Group to Retail Crime Reduction Action Team
- National Probation Service for England and Wales (Local Probation Boards)

Prisons and Probation Ombudsman  
Property Crime Reduction Action Team  
Retail Crime Reduction Team  
Selection Panels for Independent Members of Police Authorities

## OPERATING AND FINANCIAL REVIEW

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 July 2006.

### Operating Review

#### *Strategy*

The Home Office published the Strategic Framework in June 2003 (available on the Department website [www.homeoffice.gov.uk](http://www.homeoffice.gov.uk)). This is a tool to help the Home Office adapt to change, encourage forward looking and better joined-up activities across the group and with partners, thereby enabling improved planning and ultimately better delivery. The Framework identified the following key issues for what we do and how we do it:

- renewing the relationship between State and citizen;
- effective communication, consultation and engagement;
- preventing problems, supporting people early and reducing reoffending;
- providing security in a connected world;
- tackling a potentially greater range of crime and disorder;
- getting better at joint working – across the Home Office group; across the Criminal Justice system; with other Government Departments; at the regional and local level; with individuals, communities and community organisation at grass roots level;
- gathering information and using it; and
- using technology.

The Home Office Corporate Plan 2005-06 was published in June 2005 (available via the website [www.homeoffice.gov.uk](http://www.homeoffice.gov.uk)) outlining detailed spending and action plans for 2005-06.

#### *Investment for the future*

The bulk of the Home Office capital investment is made in Prisons (new construction and improvement of existing estate) and Immigration and Nationality (accommodation and detention capacity). Additionally, significant grants are made to Police Authorities to support the police estate and fund core activities and for three major projects: Airwave digital radio communications project, Case and Custody, Command Control Communications and Information System for the Met Police. These grants are classified as Resource spend in these accounts included in the Statement of Parliamentary Supply. The Police Authorities rather than the Home Office will ultimately own the assets.

More details on Home Office investment over the period 2005-06 to 2007-08 are included in the Departmental Investment Strategy published in June 2005 and available on the Department's website [www.homeoffice.gov.uk](http://www.homeoffice.gov.uk).

#### *Performance against PSA targets*

In common with other Government departments, the Home Office targets for the period 2003-04 to 2005-06 are set out in its Public Service Agreement (PSA). The following table summarises progress and performance during 2005-06 against the seven PSA targets, a Police Standard, a NOMS Standard and a Value for Money target.

Reported performance against each PSA targets is measured on the basis of clearly defined performance criteria and KPIs. These are set out in detail within Section 3 of the Departmental Report, published in July 2006, which also provides a more detailed assessment of the performance of the Home Office.



TARGET			PROGRESS
<b>Strategic Objective 1:</b> People are and feel more secure in their daily lives	<b>PSA1</b>	Reduce crime by 15%, and further in High Crime Areas, by 2007-08	<b>Overall: on course</b> 15% reduction: <b>on course</b> High Crime Areas: <b>on course</b>
	<b>PSA2</b>	Reassure the public, reducing the fear of crime and anti-social behaviour and building confidence in the Criminal Justice System without compromising fairness	<b>Overall: on course</b> Fear of crime: <b>ahead</b> Concern about anti-social behaviour being a problem: <b>ahead</b> Confidence in local police: <b>on course</b> Victim and witness satisfaction: <b>on course</b> Public confidence in Criminal Justice System: <b>ahead</b> Ethnic minority confidence: <b>on course</b>
	<b>Police Standard</b>	Maintain improvements in police performance, as monitored by the Police Performance Assessment Framework (PPAF), in order to deliver the outcomes expressed in the Home Office PSA	<b>Overall: on course</b> Performance of all police forces: <b>on course</b> Reduce the gap between best and worst: <b>on course</b> Increase the time spent on front-line duties: <b>on course</b>
<b>Strategic Objective 2:</b> More offenders are caught, punished and stop offending and victims are better supported	<b>PSA3</b>	Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.25 million by 2007-08	<b>Overall: ahead</b> Offences brought to justice: <b>ahead</b>
	<b>NOMS Standard</b>	Protect the public by ensuring there is no deterioration in the levels of reoffending for young offenders and adults. Maintain the current low rate of prisoner escapes, including Category A escapes	<b>Overall: slippage</b> Re-convictions for young offenders: <b>slippage</b> Reconvictions for adults: <b>slippage</b> Escapes: <b>on course</b>

TARGET		PROGRESS	
<b>Strategic Objective 3:</b> Fewer people's lives are ruined by drugs and alcohol	<b>PSA4</b>	Reduce the harm caused by illegal drugs, including substantially increasing the number of drug-misusing offenders entering treatment through the Criminal Justice System	<b>Overall: on course</b> Reduce harm caused by illegal drugs: <b>on course</b> Number of drug-misusing offenders entering treatment: <b>on course</b>
<b>Strategic Objective 4:</b> Migration is managed to benefit the UK, while preventing abuse of immigration laws and of the asylum system	<b>PSA5</b>	Reduce unfounded asylum claims as part of a wider strategy to tackle abuse of the immigration laws and promote controlled legal migration	<b>Overall: ahead</b> Reducing unfounded asylum claims: <b>ahead</b>
<b>Strategic Objective 5:</b> Citizens, communities and the voluntary sector are more fully engaged in tackling social problems, and there is more equality of opportunity and respect for people of all races and religions	<b>PSA6</b>	Increase voluntary and community engagement, especially among those at risk of social exclusion	<b>Overall: on course</b> Voluntary activity by individuals at risk of social exclusion: <b>ahead</b> Contribution of the voluntary sector to the delivery of public services: <b>on course</b>
	<b>PSA7</b>	Reduce race inequalities and build community cohesion	<b>Overall: slippage</b> Perception of discrimination: <b>slippage</b> Discrimination by organisations: <b>slippage</b> Discrimination in labour market: <b>slippage</b> Community cohesion: <b>not yet assessed</b>
	<b>Value for Money</b>	Home Office value for money target: to achieve gains worth £1,970 million per annum (of which £1,240 million would be cashable) by 2007-08, including by reducing the size of headquarters by 2,700 full-time equivalent (FTE) posts	<b>Overall: on course</b> Value for money: <b>on course</b>

## Financial Review

The Home Office, like other government departments, needs to report its financial performance in a number of ways. These are identified below:

### 1) Resource Estimate (Estimates Boundary)

This is a statement presented by the Treasury to the House of Commons in which the Home Office seeks approval for its estimated spending for the coming financial year. The Estimate summarises both the resources and the cash required for the year and the Home Office actual outturns against these Estimates are reported in the Statement of Parliamentary Supply of the resource accounts which can be found on page 46. This is a statement which only applies to Central Government and has no equivalent statement in UK GAAP based accounts.

### 2) Resource Accounts (Accounting Boundary)

These are prepared annually and present the financial results of the Home Office. These accounts are prepared on the basis of UK GAAP (Generally Accepted Accounting Practice) and the Government Financial Reporting Manual (FRoM). The Operating Cost Statement and the Statement of Recognised Gains and Losses (found on pages 47 and 48), the Balance Sheet (found on page 49) and the Cash Flow Statement (found on page 50) have been adapted for central government from their commercial equivalents. The accounting boundary includes the financial results for the Home Office plus its agencies. The resource accounts only include the Grant in Aid paid to the NDPBs sponsored by the Home Office. The financial performance and assets and liabilities of the NDPBs are not consolidated within these accounts.

### 3) Resource Budgeting (Budgeting Boundary)

Resource budgeting involves using resource accounting information as the basis for planning and controlling public expenditure. It introduces new concepts such as capital consumption and requires the Home Office to match costs to the period in which the economic activity takes place. HM Treasury controls Home Office spending through the use of Departmental Expenditure Limits (DEL) and they control capital spending separately from resource spending. This is the basis on which HM Treasury controls (and the Home Office manages) spending in-year, and includes the full resource and capital DEL spending of the Home Office as opposed to the Grant in Aid provided by the Home Office to finance the activities of NDPBs.

Financial reporting in the Departmental Report and other documents published by the Home Office are reported based on the resource consumption of those bodies which are included within the budgeting boundary, (i.e. includes the full resource and capital consumption of the Home Office sponsored NDPBs). This is to ensure that the costs of those bodies involved in delivering the performance reported in PSA targets are matched against the delivery reported against the appropriate PSA Target. In this respect they will differ from those amounts reported in the Consolidated Statement of Operating Costs by Departmental Aim and Objectives, which can be found on page 51.

An analysis of the financial performance against the budgeting boundary for each Objective is shown in the following tables:

<b>Objective 1:</b> People are and feel more secure in their daily lives	Outturn 2004-05 £m	Estimated Outturn 2005-06 £m	Planned 2006-07 £m
Resource	5,817	6,255	6,496
Capital	468	605	662

Tackling crime and the fear of crime is fundamental to creating confident communities in which everyone is able to enjoy the opportunities open to them. To build stronger and more effective communities, further reduce crime, anti-social behaviour and the fear of crime, create safer environments, protect the public and reduce reoffending, we took an end-to-end approach to crime reduction:

- supporting young people and reducing crime in communities;
- supporting the police;
- reducing the fear of crime;
- tackling anti-social behaviour;
- increasing confidence in the Criminal Justice System (CJS); and
- countering terrorism and organised crime nationally and internationally.

To deliver against this objective, we worked closely at international, national, regional and local level with a range of partners, including:

- our European Union partners (EU);
- the security and intelligence agencies and the Serious Organised Crime Agency (SOCA) in combating terrorism and organised crime respectively, and in protecting the UK's communities against threats in their security;
- the Department of Health (DH), Department of Work and Pensions (DWP), Department for Education and Skills (DfES), Department for Culture, Media and Sport (DCMS) and the Department for Communities and Local Government (DCLG) in addressing the longer-term causes of crime and in regenerating communities;
- HM Revenue and Customs (HMRC) and the Asset Recovery Agency (ARA) in tackling organised crime and money laundering associated with it, and in recovering the proceeds of crime;
- front-line deliverers such as local authorities who, with primary care trusts, schools and local voluntary organisations, were responsible for many key local services, and were brought together in Local Criminal Justice Boards, Crime Disorder and Reduction Partnerships (CDRPs), Drug and Alcohol Action Teams, Drug Action Teams and Local Strategic Partnerships, and in Wales Community Safety Partnerships;
- the Police and others involved in providing security locally, such as neighbourhood wardens and parts of the licensed private security industry; and
- local communities, to whom Police Service and other criminal justice bodies are accountable.

Details of other third parties with whom we have contractual and other arrangements that support in delivery of our objectives are set out in Note 28.

Activity on counter terrorism included:

- preventing terrorism by tackling the factors that encourage and facilitate recruitment of a new generation of terrorists;
- pursuing terrorists and those that sponsor them by better understanding terrorist network and their finances in order to track, disrupt and, where we can, bring them to justice;
- protecting British people and interests, at home and abroad, so that we are a harder target and people can go about their daily lives with confidence; and
- preparing thoroughly to reduce the consequences if an attack occurred.

For effectiveness, actions were pursued internationally:

- through the United Nations and with our partners in the EU and G8 to put in place measures to prevent terrorism in the future and to disrupt existing terrorist networks;
- with overseas law-enforcement and intelligence agencies; and

- by supporting countries with less experience of terrorism to strengthen their counter-terrorist training, protective security, preparedness and crisis management.

<b>Objective 2:</b> More offenders are caught, punished and stop offending and victims are better supported.	Outturn 2004-05 £m	Estimated Outturn 2005-06 £m	Planned 2006-07 £m
Resource	3,957	4,350	4,565
Capital	412	362	355

The Criminal Justice System works to keep the public safe, along with bringing offenders to justice, supporting victims of crime and managing offenders to stop them reoffending. We prosecute, convict and punish the guilty, and help them to stop offending while protecting the innocent. Our actions for doing so were centred on:

- improving the experience of victims and witnesses;
- bringing more offenders to justice;
- protecting the public and enforcing the orders of the courts;
- rehabilitation and reducing reoffending.

National, regional and local partnership was central to delivery:

- the three criminal justice departments (the Home Office, the Department for Constitutional Affairs (DCA) and the Crown Prosecution Service (CPS)) came together on a National Board comprising Ministers, senior officials, agency chief executives and other CJS figures, supported by the Office for Criminal Justice Reform (OCJR);
- forty-two Local Criminal Justice Boards (LCJBs) made up of local delivery agencies (the police, CPS, courts, probation, prisons and Youth Offending Teams (YOTs)) in a geographical area – strengthened accountability for delivering key targets;
- the Department for Education and Skills (DfES), Department for Work and Pensions (DWP), and Department of Health (DH) were responsible for directly funding specific services (e.g. offenders' education and prison health) and ensuring access to mainstream services; and
- the voluntary and community sector (VCS), and not-for-profit and private sectors contributed to efforts to stop reoffending through activities such as drug prevention, alcohol advice or finding work and homes for ex-offenders.

<b>Objective 3:</b> Fewer people's lives are ruined by drugs and alcohol.	Outturn 2004-05 £m	Estimated Outturn 2005-06 £m	Planned 2006-07 £m
Resource	207	185	210
Capital	2	1	3

We took an integrated approach to tackling drugs, which addressed each of the interrelated causes and impacts of drug-related harms by: reducing the availability of drugs on the street; tackling drug-related crime; providing effective treatment; and helping to prevent drug misuse among young people.

The cross-Government Alcohol Harm Reduction Programme focussed on reduction of key harms associated with crime, disorder and health. This included work to strengthen the response of enforcement agencies, such as the national Alcohol Misuse Enforcement Campaigns, Tackling Violent Crime Programme and work with the alcohol industry to establish voluntary measures to moderate excessive drinking and develop industry standards.

Whilst the Home Office took the lead in driving the Strategy, partnership at international, national and local level was central to delivery:

- our European and other international partners, together with HM Revenue & Customs (HMRC) tackle supply at source and en route to Britain;
- the Department for Education and Skills (DfES) help our children resist drug abuse, and in adult life to enjoy alcohol sensibly;
- the Department of Health (DH) and the National Treatment Agency (NTA) provide high-quality drug treatment and referral of those with alcohol problems;
- local criminal justice (CJS) agencies and partnerships – such as the Police, Prison and Probation Services, local Crime and Disorder Reduction Partnerships, Drug Action Teams (DATs), Drug and Alcohol Action Teams and Youth Offending Teams – enforced prohibitions, tackled drug and alcohol-related crime and directed drug misusing offenders into effective treatment, while local authorities regulated licensed premises;
- the drinks industry made clear the dangers of excessive drinking and avoided irresponsible promotions; and
- local communities and individuals took a stand against crime and disorder and made informed and responsible decisions.

<b>Objective 4:</b> Migration is managed to benefit the UK, while preventing abuse of immigration laws and of the asylum system	Outturn 2004-05 £m	Estimated Outturn 2005-06 £m	Planned 2006-07 £m
Resource	1,603	1,458	1,520
Capital	107	112	156

The approach to managing migration was balanced between welcoming legal migrants and being tough on illegal immigrants and those seeking to abuse the asylum system. It was based on:

- strengthening our borders at home and overseas to make it harder for people to enter or stay in the UK illegally;
- managing migration for the benefit of the UK, selecting who we admit to work or study, and taking firm action against abuse of the system;
- improving the asylum system, both to welcome genuine refugees and to deal effectively with unfounded asylum claims more quickly;
- removing swiftly those with no right to be here;
- enhancing integration and citizenship, building a system that led to swifter integration through settlement and citizenship of those who had a long-term contribution to make; and
- working closely with immigration partners so that the millions who travel legally could do so safely, and to tackle illegal activity, such as people trafficking.

We worked with our partners across government:

- the Foreign and Commonwealth Office (FCO) supported our delivery of more secure borders through international pressure to counter global migration threats and developing arrangements with foreign countries to support the return of people who have no right to remain in the UK;
- UK visas, a joint FCO and Home Office directorate, delivered a wide range of programmes and initiatives as the overseas arm of an integrated border control. These contribute to operations against illegal immigration, organised crime and terrorism, and work on the implementation of the points based system;

- the Department for Constitutional Affairs (DCA) delivered appeal decisions through the unified appeals system, and administered legal aid (through sponsorship of the Legal Services Commission);
- the Department for Work and Pensions (DWP) contributed to the monitoring of the Worker Registration Scheme for the new EU accession state nationals;
- HM Revenue and Customs (HMRC) and the Police in strengthening border security, whilst minimising the impact on legitimate traffic. The IAN Act 2006 allows for data sharing as part of the e-borders programme;
- the Department of Trade and Industry (DTI) supported our efforts in preventing and tackling illegal working by helping businesses to promote compliance;
- the Department for Environment, Food and Rural Affairs (Defra) worked with us to promote the introduction of statutory licences for Gangmasters; and
- the United Kingdom Passport Service (UKPS), now incorporated into the Identity and Passport Service (IPS), delivered passports to British nationals living in the UK and worked with us on biometrics.

<b>Objective 5:</b> Citizens, communities and the voluntary sector are more fully engaged in tackling social problems, and there is more equality of opportunity and respect for people of all races and religions	Outturn 2004-05 £m	Estimated Outturn 2005-06 £m	Planned 2006-07 £m
Resource	120	181	176
Capital	65	46	–

Strong communities with active citizens of all races and religions combined with strong civic organisations enable us to build trust within our neighbourhoods, to work together with and in support of the public services and to tackle issues that matter to all. To enable active, cohesive, fair and empowered communities, communities in which individuals and voluntary and community sector organisations contribute to addressing social and economic challenges and in which there is equality of opportunity, our actions centred on:

- encouraging greater participation in tackling local problems faced by communities, particularly by young people and those at risk of social exclusion;
- enabling VCS organisations to play a greater role in society, including through the delivery of public services;
- tackling inequalities, opening opportunities for all and eradicating racism and extremism; and
- promoting inclusive citizenship, identity, belonging and building cohesion by engaging with faith communities and listening to citizens and communities more widely.

Partnership at national and local level is central to delivery. We worked with:

- other government departments and local government, contributing to a range of initiatives designed to strengthen communities, including through the *Together We Can* action plan;
- the VCS across the range of our work;
- the Commission for Racial Equality (CRE) to promote race equality and good race relations; and
- faith communities and organisations, such as with Muslim community representatives in producing the *Preventing Extremism Together*, report.

The Department for Communities and Local Government and Cabinet Office became responsible for securing this objective in May 2006.

### Funding

2005-06 was the first year following the Spending Review 2004, which set out funding levels for all Government departments for the three years 2005-06 to 2007-08.

The Home Office is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons, specifying the estimated expenditure and asking for the necessary funds to be voted. The Department then draws down voted funds in year from the Consolidated Fund as required.

The Estimates are structured by 'Requests for Resources' (RfR) and include a formal description ('ambit') of the services to be financed under each RfR. Voted money cannot be used to finance services that do not fall within the ambit of the RfR. The Home Office has one RfR which covers all of its activities.

### Outturn

The Summary of Resources Outturn, which is the main parliamentary control schedule, reports the outturn against Estimate (the Estimates Boundary) for each RfR. Additional detailed actual spending during 2005-06 against Estimate sub-heads is reported in the Analysis of Net Resource Outturn by Section. Estimates for each sub-heading are finalised in the Spring Supplementary Estimate with work to formulate these numbers taking place in December (some three months before the end of the financial year). However it is possible that spending decisions taken in the last quarter of the financial year can result in monies being transferred from one delegated budget to another within individual Strategic Objectives. These changes however cannot be reflected onto individual Estimate sub-heads and are dealt with after the year end by agreement with HM Treasury to vire monies between sub-heads. There is also a difference between the way monies are allocated against Estimate sub-heads and the way budgets for in-year control purposes are delegated (the Budgeting boundary). The timing of these two exercises is also different with the delegation of in-year budgets not sometimes being finalised until the beginning of the relevant financial year and much later than the dates when Main Estimates are finalised. This can give rise to variations which are inconsistent between Estimate control totals and Budget Control totals.

Resource spend as reported in the Consolidated Statement of Operating Costs by Departmental Aim and Objectives, identifies amount spent by Strategic Objective for both the current and previous year. The differences between the Estimate and Accounting boundaries are disclosed in Note 3 of the accounts.

Reporting performance against HM Treasury budgeting boundary, the Home Office underspent by some £49 million in 2005-06, as detailed in the Schedule of Parliamentary Supply. This reflects the net impact of the variances identified in Note 2 to the accounts. Explanations are provided for variances in excess of 10% or £10m below.

#### Subhead D Organised and international crime £24.07m saving

The saving against subhead D offsets the overspend on subhead T (Organised and International Crime Grants) of £4.06m. Other underspends have arisen from lower than expected expenditure on the set-up of the Serious and Organised Crime Agency (by £5m) and the costs of transferring the national Technical Assistance Centre to GCHQ from 2006/07 (by £2m). Other underspends have been used to offset additional funding requirements by the police and prisons in relation to anti-terrorist operations.

#### Subhead E Drugs £10.17m saving

The saving reflects lower than expected spending on the Restriction Against Bail programme following a decision to delay roll-out together with lower than estimated expenditure on publicity campaigns and research pending Ministerial decisions on drugs policy.

#### Subhead H Futurebuilders £18.39m saving

The underspend arises because the rate at which funds ring-fenced within the Trust Account have been committed to binding investments has been slower than originally anticipated when the programme was established.



Subhead I (Corrections HQ) – £ (680.72)m excessSubhead J (Prisons – private sector) – £(95.17)m excessSubhead K (Prisons – public sector) – £509.89m savingSubhead L (Probation HQ) – £257.89m saving

The net effect of variances on subheads I and J and underspends on subheads K and L is an overspend of £8.11m against voted provision. This has arisen because appropriations in aid have exceeded the Estimates limit by £35m. Were it not for this, there would be a small underspend of around £27m reflecting lower than expected pension charges for Local Probation Boards. Following structural changes in the National Offender Management Service, some functions including responsibility for the public prison estate, prisoner escorting and most policy areas transferred from the Prison Service to NOMS headquarters from April 2005 with an associated transfer of expenditure of around £659m.

Subhead N. Passport Service £(91.46)m excess

The Passport Service made a £21m surplus against a break-even provision in the Estimates. The apparent overspend occurs because actual receipts of £238.1m have been capped at the appropriations-in-aid limit of £126m.

Subhead O Central Services £52.49m saving

The underspend arises from profits from the sale of Horseferry House of £18m not anticipated in Estimates and lower than expected resource expenditure on the Electronic Document Record Management project (£13m). The remaining saving relates to central finance corrections to accounting records following the qualification of the 2004-05 accounts.

Subhead P European Refugee Fund £7.37m excess

Estimates assume that expenditure will be offset by receipts from the European Union in year. Due to timing differences in the recognition of expenditure on an accruals basis and the recognition of income on a receipts basis, expenditure has not been fully recovered in 2005-06.

Subhead S Crime Reduction Grants £22.12m excess

The overspend against this subhead arises from capital grants paid to police forces for Automatic Number Plate Recognition and IBIS (Integrated Business Information System for the criminal justice system). Overspends have been covered by receipts from the recovery of criminal assets which are treated as Consolidated Fund Extra Receipts in Estimates but as negative resource expenditure in budgets.

Subhead W Police Information Technology Organisation £59.15m saving

The saving arises from delays in large capital projects such as Custody and Case, the Identification Programme (IDENT) and Airwave which are funded by capital grant-in-aid which constitutes resource expenditure in Estimates.

Subhead AB Security Industry Authority £(1.58)m excess

The Security Industry Authority is intended to be self-financing through fees generated from activities. Licences were not taken up in the volumes expected which meant that the Authority's fixed costs were not fully recovered resulting in a deficit which had to be covered by extra grant-in-aid.

Subhead AF Criminal Injuries Compensation Authority £50.49m saving

Compensation payments to victims of crime settled in the year were settled at a lower value and volume than anticipated.

Subheads X to AJ excluding AB and AF £(19.62)m net excess

Variances against other NDPBs generally reflect timing issues around the need to draw down cash funding around the year end which can vary from year to year depending on when grant payment runs are processed relative to the year end and how much cash the NDPB had in hand at the start of the year.

Subhead AK Criminal Justice Grants £668,000 excess

The overspend on sub head AK is offset by the underspend against subhead F (Criminal Justice). The overspend on this subhead is attributable to the payment of Special Grants to the police to cover additional expenditure incurred in relation to enforcement and justice activities.

The overall cash requirement for the year was £407m lower than expected. This was a result of lower than planned spending on capital projects of £182m (mainly on police information technology, detention centre accommodation and on the Criminal Justice IT) and higher creditor and debtor balances. Further details of the impact of the supply adjustment are contained in Note 1.25 to the accounts.

As required by the FReM, note 32 discloses the Department's contingent liabilities not required to be disclosed under FRS12, but included for parliamentary reporting and accountability purposes. The Department is taking steps to help minimise the risks of these contingent liabilities crystallising as part of its normal risk management processes.

**Events since the year end**

On 5 May 2006, Rt Hon John Reid MP replaced Rt Hon Charles Clarke MP as Home Secretary. Liam Byrne originally replaced Hazel Blears as Minister of State for Policing, Security and Community Safety and Tony McNulty replaced Des Brown as Minister of State for Immigration, Citizenship and Nationality. In June 2005 Tony McNulty MP and Liam Byrne MP swapped Home Office ministerial portfolios. Vernon Coaker MP replaced Paul Goggins MP as Parliamentary Under Secretary of State for policing, security and community safety. Gerry Sutcliffe MP replaced Fiona McTaggart MP as Parliamentary Under Secretary of State. Andy Burnham MP was replaced by Joan Ryan MP as Parliamentary Under Secretary of State for nationality, citizenship and immigration.

As part of the machinery of government changes announced by the Prime Minister on 6 May 2006, the Active Communities Directorate within the Home Office transferred to the Cabinet Office to form a new Office of the Third Sector. Other parts of the Home Office's Communities group transferred to the Department for Communities and Local Government (DCLG).

With effect from 1 April 2006 the activities of the National Crime Squad (NCS) and the National Criminal Intelligence Squad (NCIS) were transferred to the Serious Organised Crime Agency (SOCA), together with elements of Her Majesty's Revenue and Customs (HMRC) and the Immigration Service. PITO, Centrex and a number of Home Office units will merge to form the new National Police Intelligence Agency from 1 April 2007.

In the summer, the present Home Secretary decided not to proceed with the proposals for Police Force Mergers, favouring other avenues including shared services and collaboration.

On 1 April 2006 UKPS ceased to exist and a new agency, the Identity and Passport Service, was created. All UKPS assets and liabilities were transferred to the new Agency, which incorporated the functions of UKPS and will also deliver the Identity Card scheme.

The Home Secretary has announced an increase in prison places as a response to the growing number of prisoners.

In July, we published three related reform plans. The overall Home Office Reform Action Plan was published on 19 July. This provided an ambitious framework for how the department as a whole would change. On 20 July we published our plans for rebalancing the Criminal Justice System. This was followed on 25 July by a more detailed review of the Immigration and Nationality Directorate.

## Future Developments

The Home Office Reform Plan published in July 2006 sets out a detailed programme for transforming the Home Office to better enable the organisation to deliver its objectives. More detail is outlined in the Statement of Internal Control but, in summary, the four key parts of the plan – which are being taken forward in a detailed implementation plan – are:

- a public protection strategy, with six new objectives to guide its work;
- a leadership strategy, which will strengthen the board and wider leadership team;
- a new operating model, with a reshaped department better placed to meet future challenges; and
- an action plan focused on seven key strands, including risk, prioritisation and resource management, investing in people, data, reliable systems and processes, project management and engaging stakeholders.

The Reform Plan is set firmly within the tight Home Office settlement for the period through until 2010-11, reached in the 2006 Budget. In order to live within the 'zero real' increase for the CSR years, we are taking a number of additional steps to ensure that business area allocations are deliverable and risks minimised. We will be undertaking a number of Zero Based Reviews in areas such as the police workforce, probation, asylum, police IT and drugs. We are also undertaking a review of all of our major projects and the Home Office capital programme. We will also be seeking to reduce HQ costs, particularly through a move to a shared service model for financial, HR and procurement transactional services. We will be reviewing our executive NDPBs to secure better value for money, as part of a wider VFM programme.

## MANAGEMENT

The department is headed by a team of Ministers, supported by officials.

### Ministers

The following Ministers were responsible for the Department during 2005-06:

Charles Clarke	Home Secretary
Hazel Blears	Minister of State for Policing, Security and Community Safety
Paul Goggins	Parliamentary Under Secretary for Policing, Security and Community Safety
Patricia Scotland	Minister of State for Criminal Justice and Offender Management
Fiona Mactaggart	Parliamentary Under Secretary for Criminal Justice and Offender Management
Des Browne	Minister of State for Immigration, Citizenship, and Nationality (until 9 May 2005)
Tony McNulty	Minister of State for Immigration, Citizenship and Nationality (from 10 May 2005)
Caroline Flint	Parliamentary Under Secretary for Immigration, Citizenship and Nationality (until 9 May 2005)
Andy Burnham	Parliamentary Under Secretary for Immigration, Citizenship and Nationality (from 10 May 2005)

### Officials

The Home Office Board (formerly the Group Executive Board) has responsibility for leading the Home Office Group, including its Agencies, to ensure that it delivers on the aims set by Ministers, builds its capability for the future and maintains high standards of propriety. Officials serving on the Board during the year were:

John Gieve	Permanent Secretary (until December 2005)
David Normington	Permanent Secretary (from January 2006)
William Jeffrey	Director General of Immigration & Nationality (until April 2005)
Ken Sutton	Director General of Immigration & Nationality (Acting) (from April to August 2005)
Lin Homer	Director General of Immigration & Nationality (from August 2005)
Martin Narey	Chief Executive of the National Offender Management Service (NOMS) (until October 2005)

Helen Edwards	Director General of Communities Group (until November 2005) and Chief Executive of the National Offender Management Service (NOMS) (from November 2005)
Mark Carroll	Director General of Communities Group (Acting) (from November 2005)
William Nye	Director General Financial & Commercial (Acting) (until April 2005)
Helen Kilpatrick	Director General of Financial & Commercial (from April 2005)
Leigh Lewis	Director General of Crime Policing, Counter Terrorism and Delivery (until November 2005)
Moira Wallace	Chief Executive Office for Criminal Justice Reform (until November 2005), Director General Crime, Policing and Counter Terrorism (from November 2005)
Mary (Jane) Furniss	Chief Executive Office for Criminal Justice Reform (Acting) (from November 2005)
Martin Bryant	Director of Strategy
John Marsh	Group Director of Human Resources

#### Non Executive Directors:

Derrick Anderson	Chief Executive of Wolverhampton City Council
Patrick Carter	Chair of Sport England
Denise Kingsmill	Chairman of Sadlers Wells

The officials of the Home Office have no conflicts of interest nor hold any significant directorships that require to be disclosed.

#### Appointment of senior officials

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. Other departmental members of the Board were appointed by the Permanent Secretary. 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.

#### Ministers' and Board Members' Remuneration

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.

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).

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.

Further details on remuneration are set out in the Remuneration Report beginning on page 39.

#### STATEMENT ON CORPORATE GOVERNANCE

The HM Treasury *Code of Good Practice on Corporate Governance in Central Government Departments* (issued in July 2005) sets out good corporate governance practice that should be followed by central government departments. The Code sets out six underlying principles, each with specific supporting provisions.

The Code mandates the following areas of reporting:

- how the departmental Board operates, including its delegations and committees;
- which Board members the Board considers to be independent;
- the work of the Board's Audit Committee; and

- how the department manages its relationships with arm's length bodies with which it operates, including NDPBs, public corporations and wholly or largely owned companies .

In addition, the Code requires the reporting of those provisions where the recommended approach is not followed in its entirety.

Each area requiring mandatory reporting is discussed below.

The Home Office Board (formerly the Group Executive Board) was responsible for the corporate leadership of the Department during 2005-06 and was the key group through which Ministers were supported in the leadership and corporate governance of the Home Office. Chaired by John Gieve and then David Normington, the Permanent Secretary, it brings together the heads of the five main business areas as well as the four heads of corporate services. To provide external scrutiny and support the Board was also supported by three independent non-executive directors.

The Role of the Board is to provide the corporate leadership of the Home Office (including its executive agencies), supporting Ministers in:

- setting the overall strategic direction and priorities, with particular attention to issues which cut across individual Directorates or groups;
- efficient and effective allocation and use of resources;
- driving performance and improvement, and effective delivery of priorities;
- assessing and managing risk;
- ensuring effective arrangements are in place to develop and deliver policy and services;
- leading public sector reform and change;
- developing the present and future leadership cadre;
- building the external reputation of the Home Office; and
- embedding Home Office values.

The Home Office Audit Committee's role is to advise the Accounting Officer on internal control, risk management, audit and financial accounts issues. It met four times in 2005-06 and was chaired by Patrick Carter a non-executive Board member. It had an additional 5 non-executive Audit Committee members.

We set out on pages 4 and 5 the mechanisms by which the Home Office manages its relationships with the arm's length bodies with which it operates.

The Home Office complies with the nearly all the principles and provisions of the Code reflecting the appetite, determination and desire of the Home Office and the Board to effectively implement current corporate governance good practice. The Home Office is also working on improving and refining the current position with the objective of maintaining an early adoption of corporate governance good practice.

Specifically, during 2005-06, we consider the Home Office entirely complied with three of the six underlying principles of the Code, together with their supporting provisions. All the remaining principles and supporting provisions were complied with, with the exception of the following: the Terms of Reference for the Board are currently being finalised to comply with the requirements of the Code (provision 2.1 of the Code); and the Board is yet to formally state the basis by which it considers the three non-executive directors to be independent (provision 4.2 of the Code).

## **Risk Management**

Risks are assessed, managed and reported at strategic, programme and project level. Over-arching threats to delivery by the Home Office group are tracked and managed on a corporate risk register. The Home Office Board formally reviews this risk register on a quarterly basis as part of an integrated performance management report.

Risks threatening key delivery targets and major infrastructure initiatives are reported monthly to the Home Office Board and Ministers. In addition, a Performance Board, chaired by the Permanent Secretary, monitors the performance and risks to key targets. This approach now embraces all Business Units and comprehensive training and education has been provided to support managers at all levels throughout the Home Office.

Within agencies, corporate risks are managed and reviewed by the appropriate Management Board, and escalated where appropriate to the Home Office's corporate risk register.

Further information is provided in the Statement on the System of Internal Control.

## **PUBLIC INTEREST AND OTHER**

### **Employment of Disabled Persons policy**

The Home Office is committed to the employment and career development of disabled people and disability is not regarded as a bar to recruitment or promotion. Selection is based upon the ability of the individual to do the job. The Department operates the Guaranteed Interview Scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. Once in post, disabled staff are provided with any reasonable support they might need to carry out their duties.

### **Equal Opportunities**

The Home Office is an equal opportunities employer. Policies are in place to guard against discrimination and to ensure that there are no unfair or illegal discriminatory barriers to employment and advancement in the Department.

The Cabinet Office is responsible for developing, formulating and promulgating equal opportunity policies for the Civil Service as a whole, but operational responsibility lies with the Home Office. The Home Office has an Equal Opportunities team, which is responsible for developing equal opportunities policies and liaising with the Cabinet Office and other Government departments.

The Home Office equal opportunities policy states that there shall be no discrimination against staff on grounds of ethnic origin, religious belief, sex, sexual orientation, disability or any other irrelevant factor. Employment and promotion are solely on merit. Staff who have alternative working patterns are assessed on exactly the same basis as those working full time. The Home Office continues to work to ensure that equal opportunities are brought into the mainstream of Home Office personnel policies.

### **Environmental Policy**

The Home Office is committed to reducing its impact on the environment by improving the environmental performance of its estate. This policy has been agreed by the Department's Sustainable Development Minister and Permanent Secretary.

On 12 June 2006 the Prime Minister launched new targets for sustainable operations on the Government Estate. The Home Office is currently working on strategies to meet these new targets.

### **Pension scheme liabilities**

Employees in the parent Department are primarily members of the Principal Civil Service Pension Scheme (PCSPS). This scheme is an unfunded multi-employer defined benefit scheme with benefits paid by the

Cabinet Office as they fall due, secured against future tax yield. The Cabinet Office produces a separate annual PCSPS scheme statement. The Home Office pays contributions to meet the actuarially calculated cost of pensions and is responsible for certain costs associated with early retirements. These costs are charged to the Operating Cost Statement. The Home Office is unable to identify its share of the underlying PCSPS assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Civil servants may be in one of three statutory based 'final salary' defined benefit schemes within the PCSPS (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

Ministers of the Home Office are members of the Ministerial Pension Scheme (MPS) which is a part of the Parliamentary Contributory Pension Fund (PCPF) and provides benefits on a 'final salary' basis. It is a funded scheme and is administered by the House of Commons Pensions Unit.

These accounts include the Home Office liabilities for undischarged contribution payments, and for the future costs of early retirement compensation payable to the PCSPS. It does not show the total pension liability in respect of employees or pensioners within the departmental boundary.

Some members of the National Probation Service belong to the Local Government Pension Scheme (LGPS), a statutory fully funded scheme. An independent actuarial valuation was carried out for the 42 Probation Boards at 31 March 2004 by various actuaries and this determined employers contribution rates from 2003-04 to 2005-06. The valuation as applied to the Probation Board at 31 March 2006 showed a shortfall of assets compared with the present value of liabilities of £257m.

### **Payment of Suppliers**

The Home Office has signed up to the CBI's prompt payment code and BS 7890, the British Standard for prompt payment. The contractual terms and conditions of payment require that a supplier's invoice be paid within 30 days of acceptance of relevant goods and services, or the receipt of a valid invoice if that is later. The Home Office and its Agencies prompt payment record for the year was 91.9% (86.6% in 2004-05).

### **External auditor**

These financial statements have been prepared in accordance with the Government Resources and Accounts Act 2000 and are subject to audit by the Comptroller and Auditor General.

In so far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer has quarterly meetings with the Head of Audit and Assurance and has taken all the steps that he ought to have taken to make himself aware of any relevant audit information, and to establish that the Comptroller and Auditor General is aware of that information.

### **Provision of Information to, and Consultation with, Employees**

The Home Office has a variety of communication channels in place to deliver information on organisation and business developments to staff, and to provide an opportunity for feedback. The channels used range from timely electronic communications to face-to-face briefings. The Home Office gained Investors in People accreditation in September 2000 and retained accreditation in January 2004 following the three yearly review of performance against the Standard.

David Normington  
Accounting Officer  
27 November 2006

## Statement of Accounting Officer's Responsibilities

Under 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 objectives, recognised gains and losses and cash flows for the financial year.

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

In preparing the Accounts the Accounting Officer is required to comply with the Government Financial Reporting Manual (FReM) prepared by the Treasury, and in particular to:

- a. Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- b. Make judgements and estimates on a reasonable basis;
- c. State whether applicable accounting standards, as set out in the Government Financial Reporting Manual (FReM), have been followed, and disclose and explain any material departures in the accounts;
- d. Prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in *Government Accounting*.

David Normington  
Accounting Officer  
27 November 2006



## Statement on the System of Internal Control

### Scope of responsibility and accountability arrangements

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Home Office 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*. I was appointed as the Home Office's Accounting Officer from 1 January 2006 in succession to Sir John Gieve, who was Accounting Officer until 31 December 2005.

The Home Office delivers its objectives in partnership with its Agencies, Non-departmental Public Bodies (NDPBs) and other public bodies. I discharge my responsibility as Accounting Officer in conjunction with Accounting Officers of the Department's Agencies and NDPBs. My relationship with these Accounting Officers is set out in statements contained in the respective Framework agreements, Financial Memoranda and designatory letters.

As Accounting Officer I work with Ministers and senior managers through the Home Office Board and other meetings and correspondence to achieve the Department's objectives which are set out in the Annual Report (page 3). I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent the Home Office's objectives being achieved.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has continued to change and develop during the year, up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance. I am committed to the ongoing development, monitoring and review of these systems to ensure that they continue to be appropriate, effective and integral to all Home Office business processes.

### Capacity to handle risk

#### *Context*

The Home Office is a complex and diverse organisation with multiple challenges. Its aims cover crime reduction, reforming the criminal justice system, countering terrorism, tackling drug abuse, managing asylum and migration procedures and until May 2006, building stronger communities together with a host of supporting objectives. It achieves its aims by direct service provision in some areas, augmented in others by delivery through a multiplicity of other agencies including Non-departmental Public Bodies, police authorities, probation boards and independent community groups.

#### *Leadership*

I, as Departmental Accounting Officer and Permanent Secretary, lead the risk management process, supported by the Home Office Board who endorses the Group-wide risk management policy that defines the overall aims and approach. Staff are trained and equipped to manage risk in a way appropriate to their authority and duties, as set out in appropriate guidance and best practice.

Led by their respective Accounting Officers, the various Home Office agencies have developed their own risk management processes and strategies. A risk management forum, which includes senior management representatives from each Agency and the Home Office, has been established to ensure that these processes are co-ordinated.

## **The system of internal control**

The Home Office's system of internal control consists of a framework of corporate governance and management processes which is summarised below.

## **The risk and control framework**

### *Home Office Board*

The Home Office Board, comprising the senior members of the Department and two (three during the year ended 31 March 2006) external independent members, meets monthly to consider the plans and strategic direction of the Department. The Board received monthly reports on performance, key projects and their risks.

### *Performance and Project Management*

The Performance Board (a sub-board of the Home Office Board) reviews performance on a monthly basis and assimilates its findings in a quarterly performance report for the Home Office Board.

This information is presented in a balanced scorecard format covering outcomes, outputs and enablers. This includes a summary of the key risks and a more detailed report on risk is presented alongside the scorecard. The outcomes are primarily the Department's PSA targets. The data systems used to measure PSA targets are defined in published Technical Notes and have been subject to scrutiny by HMT and the NAO. We have undertaken a consultation with stakeholders on PSA targets for the Comprehensive Spending Review 2007 and are currently considering the responses. The scorecard also includes an assessment of performance in delivering key projects.

Using the balanced scorecard the Board is able assess the performance of the organisation in the round and to see clearly the key issues they need to spend their time on.

### *Audit Committee and Internal Audit*

During 2005-06 the Audit Committee met four times during the year. The Committee is chaired by an independent chair, in accordance with Audit Committee best practice. The purpose of the Audit Committee is to advise me as the Departmental Accounting Officer on the adequacy of arrangements for internal control and risk management, and on the implications of assurances provided on risk and control in the Home Office, particularly those from internal and external audit. The Audit Committee is wholly independent consisting of six independent members. I, the Home Office Director-General Finance and Commercial and Director of Finance and Performance also attend.

The Committee is supported by the work of my internal audit unit, which operates in accordance with Government Internal Audit Standards. The Chief Internal Auditor provides regular reports and advice on governance, risk and internal controls and each year provides an independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement.

### *Risk Criteria and Evaluation*

The specific approach has been tailored to fit the circumstances of each area, but risk management operates on consistent principles of identifying and analysing the management risks against objectives.

Risk registers have been established across the Home Office group, and risk assessment is included in the corporate planning process. Risks are assessed for likelihood and potential impact in order to help determine priority risks for action. Accountability for management of individual risks is established as an essential part of the risk management policy.

### *Risk Management Processes*

Risks are assessed, managed and reported at strategic, programme and project level. Over-arching threats to delivery by the Home Office group are tracked and managed on a corporate risk register. The Home Office Board formally reviews this risk register on a quarterly basis as part of an integrated performance management report.

Risks threatening key delivery targets and major infrastructure initiatives are reported monthly to the Home Office Board and Ministers. In addition, a Performance Board, chaired by myself, monitors the performance and risks to key targets. This approach now embraces all Business Units and comprehensive training and education has been provided to support managers at all levels throughout the Home Office.

Within agencies, corporate risks are managed and reviewed by the appropriate Management Board, and escalated where appropriate to the Home Office's corporate risk register.

### *Review and Assurance of Risk Management*

The Audit Committees of the Home Office and its agencies oversee their respective risk management processes, and take progress reports at each meeting. These Committees are assisted by the work of internal audit who as part of their programme of work independently review and report on the risk management process. In addition, progress on embedding risk management is formally assessed and reported quarterly in the Home Office Balanced Scorecard.

## **Risks and Uncertainties**

### *Risk Appetite*

The Home Office Board considered risk appetite when it reviewed the corporate risk register and specifically whether it is content with the extent to which risk levels are reduced by mitigating actions. And where it is not content the Home Office Board commissions further mitigating actions.

The Board have reflected on the overall level of risk exposure faced by the Home Office and decided that they wish to reduce this in future years. Our new approach to risk management and prioritisation (discussed below under "*Home Office Reform*") aims to achieve this.

### *Immigration and Nationality Directorate*

In July 2006, IND published a report, "Rebuilding confidence in our immigration system", as part of the Reform Programme. This identified a number of areas requiring attention, as set out below:

- IND has been forced to work around outmoded systems;
- there is a critical need to provide IND with the laws, systems and support it needs to deliver effectively;
- IND has complicated structures and processes and mixed priorities and accountability, which leads to bureaucracy and fragmentation rather than streamlined focus on overall outcomes;
- skills and roles are not always well matched and performance management throughout the organisation is not strong enough;
- IND's IT and management accounting information systems have not kept up with changing demands; and
- IND still largely reacts to events rather than managing risks and anticipating and pre-empting new problems.

These are being addressed through the Reform Programme. Improvements continue to be made and there has been considerable progress in developing and embedding risk management and financial control measures across IND over recent months.

*National Offender Management Service*

The National Offender Management Service operated during 2005-6 and continues to operate within an environment of significant operational and organisational change. These changes are often complex and take time to become fully established. This has led to a level of uncertainty and lack of clarity about certain accountabilities although these did not have a significant impact on the key operational aspects of NOMS. Generally, directors and managers are now clear about their personal accountabilities and responsibilities but it is recognised that there are still a number of governance issues that need to be addressed. These are being carried forward by the NOMS Change Programme.

There have been a number of key public protection events that occurred during 2005-6 which put the reputation of NOMS at risk and took significant operational resource to resolve. They also highlighted inadequate offender assessment and management of interventions and a lack of clarity about roles in managing cases.

Overall, improvements to the system of internal control, governance and risk management have been made in all parts of the NOMS. However, recent high profile events have demonstrated that key systems require further improvements to ensure appropriate and effective controls are in place across NOMS.

*Crime Reduction & Community Safety Group*

The Crime Reduction and Community Safety Group (CRCSG) is responsible for organised crime and counter intelligence, police policy and standards, crime reduction and drugs. Work undertaken during 2005-06 suggested that CRCSG had generally adequate or good practices and processes but needs to improve on its compliance with guidance in undertaking procurement activities and the making of grants.

*Office for Criminal Justice Reform*

The Office for Criminal Justice Reform (OCJR) is a tripartite organisation that involves the Department for Constitutional Affairs, Crown Prosecution Service and the Home Office. The OCJR also comprises the Criminal Cases Review Commission (CCRC) and provided extensive support and advice on the Criminal Injuries Compensation Authority (CICA). Accountability runs largely through the Home Office through which most staff are employed. Work undertaken suggests that systems and processes operated within OCJR itself were sound. However, governance issues were identified at both the CCRC and the CICA.

*ID Cards & UKPS*

During 2005-6 the ID Card Programme was in its early stages and as with other programmes substantial reliance around the risk management approach was devolved to the independent oversight provided by the Home Office's Project and Programme Management Support Unit. I have not been made aware of any significant issues arising with respect to the system of internal control within the ID Card Programme and UKPS.

*Communities Group*

The Communities Group was responsible for community cohesion, race (including the CRE) and volunteering. Following the year end, the responsibilities of the Communities Group left the Home Office as part of machinery of government changes. Four reviews were undertaken or completed during the year and all were rated Amber-Green.

Overall, controls operating within the Communities Group were satisfactory. However, the Commission for Racial Equality has operated, for a lengthy time, without a Chief Executive with the Chair taking on those executive duties. In addition, the CRE Audit Committee had been ineffective during the period although the appointment of an independent member to Chair the Audit Committee has led to improvement in this area.

### *Corporate Services*

There have been a number of financial and internal control issues arising with respect to Corporate Services during 2005-06. These are discussed in more detail below, under "*Significant internal control issues*".

### *Corporate Risks*

The top corporate risks are continually reviewed by management and represent the most severe risks that the department faces and which the Board therefore actively participate in managing. The top corporate risks as at 24 November 2006 are set out below:

- Terrorist attack;
- Unsustainable pressure on custodial capacity;
- Deficiency in policies and procedures for public protection;
- Foreign National Prisoners;
- Lack of the right capacity, capability and commitment impacts on the department's ability to deliver against targets;
- Poor systems of redeployment leaving other work objectives neglected;
- Sensitivity to Migration: Increasing public sensitivity to migration and in particular illegal overstaying;
- Failure to produce timely and accurate accounts;
- The performance management framework fails to identify in time a PSA or other priority going off track;
- Failure to restore confidence in the Home Office making it difficult to continue with the reform agenda especially in dealing with stakeholders;
- Systemic weakness in the way we manage dangerous individuals, the effect of which would be reduced public protection.

The status of these risks, and specific actions to mitigate them, are being monitored and managed through the Home Office corporate risk register, an internal document reviewed regularly throughout the year by the departmental risk sub-group, the Home Office Board and the Home Office Audit Committee.

### **Review of effectiveness**

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

### **Significant internal control issues**

#### *Cabinet Office Capability Review and Home Office Reform*

The Cabinet Office Capability Review concluded that whilst the Home Office has made progress in the last five years, the Department now faces major and urgent new challenges. In particular, the Capability Review stated that the Board must now provide new leadership to the Home Office and set a clear vision and sense of direction for the organisation. There will need to be strong governance to enable the Home Office to operate as a single entity with a specific culture. The review concluded that as at July 2006, the Home Office did not yet have the overall capability and the corporate services to meet the scale of the challenges faced.

In July 2006 the Home Secretary and I published a reform action plan that drew on the findings of the Capability Review carried out by the Prime Minister's Delivery Unit and my own and my senior team's analysis conducted after my arrival in January 2006. This Capability Review coincided with the foreign national prisoners' crisis and reinforced the case for fundamental reform. The reform plan sets out a wider programme for transforming the Home Office – in its leadership capabilities, its organisation and structure, skills processes and systems.

The plan has four parts.

Firstly, we define public protection as the core purpose of the Home Office and set six new objectives to guide its work.

Secondly, we are making changes to the Home Office leadership team to strengthen its board and director level. This will be underpinned by a longer term programme for developing all the Department's top 250 leaders.

Thirdly, we will reshape the structure and governance of the Home Office. The key characteristics of the reshaped Department will be:

- a much smaller strategic centre, supporting the Home Secretary in setting the overall direction in policy and performance; and a shift of responsibility and resource to the front line;
- accountable business units (the National Offender Management Service, the Immigration and Nationality Directorate and the Identity and Passport Service) with clear performance frameworks and freedom to innovate and manage; with the Immigration and Nationality Directorate becoming an executive agency;
- a Reform and Delivery unit, led at Board level, driving change, priorities and performance;
- much more efficient and effective shared services separated and governed by operational areas within a framework set by the centre; and
- an overall reduction in headquarter's staff by 30 per cent (2,700 posts) by 2008 and a further 10 per cent (600 posts) by 2010.

Fourthly, we have launched a radical reform programme with seven strands:

- systematic identification and management of risk: in 2005-06 we embedded the benefits from our risk improvement programme which successfully increased our capacity to manage risk and introduced a new corporate wide process. This strand of the reform programme aims to build on this by creating a stronger understanding of the risks facing us at every level and take a more proactive and intensive approach to managing them. This work will be fundamental to our success in delivering on our priorities, particularly those that relate to protecting the public.
  - we will create a more thorough understanding of the risks we face at each level of our business so that we can take more timely and innovative action to mitigate them. We will embed a culture of intensive risk management which supports informed risk taking by managers, improves the risk management of major investment programmes and encourages the front line to identify and escalate risk more regularly;
  - we intend to achieve this through a mix of process improvements and leadership actions in order to shift the behaviours of management and front line staff;
  - the Board has already identified the most critical risks facing the organisation and assigned each one to a single, accountable Board member. The Board will actively manage these on a weekly basis. We have also asked managers at the front line to identify and assess all risks that may threaten public protection, and review weekly the action they are taking to control them, escalating those which need to be managed at a higher level;

- prioritisation and resource management: we will strengthen our approach to allocating and managing resources and people, so that they are focussed on our public protection priorities;
- investing in people: we propose to transform the skills, including managerial skills, of our staff at all levels; and to revise our performance management and incentives, so that poor performance is tackled and good performance rewarded;
- accurate data and management information: we are taking urgent steps to improve the quality accuracy of our management information and numerical data so that it can be trusted by our ministers, by Parliament and by the public. A longer term programme to develop greater assurance in management information is in development;
- reliable systems and processes: we will build more robust and reliable systems and processes across the Home Office both in individual services and between services;
- more effective programme and project management: we are reviewing the present state of all our major programmes and using the arrival of our new board member for performance and reform to ensure that swift action is taken to address weaknesses and gaps; and
- engaging stakeholders and communities: we are committed to building stronger relationships with our national and local partners and stakeholders, many of whom we rely on for effective delivery.

The aim is to create a robust and effective approach to risk management that surfaces and escalates risks as appropriate, allows clear communication, enables and monitors specific actions to address/mitigate the risks and ensures clear accountabilities.

This approach has clear accountability, transparency, interactive engagement, be action orientated, be on a timely basis and is a core part of how the Home Office manages its business.

Also, the Department has developed and is using a new risk management matrix assessing the impact and likelihood of risks materialising and using this as a basis to manage the business.

#### *Preparation of 2005-06 Resource Accounts*

Whilst the Home Office has finalised its resource accounts earlier than ever before, it has still done so considerably later than originally planned. The key reasons for the failure to achieve target timescales are set out below.

- The timetable that was originally committed to was overoptimistic and underestimated the scale of the issues to be addressed. The original accounts preparation plan that supported the target dates for key milestones was not sufficiently detailed and whilst showing an awareness of the issues failed to properly establish the scale of those issues or the level of resource required to address them.
- The key team members that ultimately produced the accounts were not in post until April/May 2006. There was minimal handover information available and inadequate supporting papers or audit files from 2004-05 to follow. In addition, responsibility for production of the accounts was moved to London prior to these key individuals joining and there was therefore nobody on the accounts production team in 2005-06 that had worked on the production of the Home Office accounts in previous years.
- Unplanned changes in key personnel throughout the accounts production process caused significant difficulty and delay in some areas.
- A lack of understanding and ownership over key processes and balances in many general ledger areas meant that considerable work was required to ensure the accounts and supporting audit files were of auditable quality and we were able to properly justify the information in our ledger.
- We faced considerable difficulties sourcing and providing extensive sampling evidence for some 1,600 transactions, required for audit purposes.
- We faced particular difficulties in identifying comparative numbers for the core accounts, given that core accounts were not prepared in 2004-05.

The accounts production process for 2005-06 has been extremely challenging. However we have come a long way from 2004-05 when the Home Office Resource Accounts were disclaimed by the Comptroller & Auditor General. I and my staff are clear about the scale of the task ahead. Whilst we have made significant progress in 2005-06 there is still much we need to do to ensure effective financial management across the Department.

#### *2005-06 Audit Process*

Whilst there has been an improvement in the Home Office's facilitation of the audit process through close joint working with NAO, there have nevertheless been a number of issues arising that highlight weaknesses in our financial management and controls. In particular considerable work was required post year end to enable the Department to produce its Resource Accounts, and a number of issues arose through the course of the audit that highlight the control weaknesses that still need to be addressed. These are set out below.

- Since the introduction of the Home Office's new accounting system, in April 2005, the Department has been moving from a manual process for identifying year end accruals (liabilities to pay suppliers where no invoice has yet been received) to an automated system. 2005-06 was a transitional year and particular risks crystallised in respect of the closing accruals balance. In particular, audit work identified overstatement within the accruals balance due to items being included in the balance which had been paid before the year end, items being included relating to 2006-07 activity and a lack of evidence for certain items. The Home Office was also unable to provide sufficient evidence that there was no significant duplication between manual accruals, system accruals and trade creditors.
- During 2005-06 systems weaknesses enabled invoices to be paid without being properly matched to system purchase orders. This weakness resulted in a high number and value of unmatched purchase orders at 31 March 2006, and insufficient evidence that all accruals resulting were valid.
- Work to match Home Office records to supplier records proved particularly difficult and time consuming. Home Office finance staff decided to defer work in this area in order to focus efforts on other aspects of the accounts production and audit process. Evidence providing assurance that Home Office records of sums owing were in agreement with those of suppliers was not, therefore, readily available.
- Key reconciliations, which should have been carried out monthly, were only carried out after the year-end. In-year data could not, therefore, be effectively validated, weakening in-year management control over income and expenditure.
- During 2005-06 the Home Office's cash management procedures were ineffective resulting in a significant overdraft of £246 million with the Office of the Paymaster General at the year end, matched by sums undrawn in respect of financing from the Consolidated Fund.
- Personnel records were difficult to locate, and some could not be found at all. In addition, information held by personnel was not always communicated or cross-referenced to other parts of the Home Office on a timely basis. For example, systems administrators were not always notified when staff had left so that user accounts could be suspended, leaving the Home Office vulnerable to unauthorised access to the system.
- Control procedures to match all payments to authorised purchase orders were overridden when this new policy was introduced in January 2006. At present, it is possible for purchase orders to be created retrospectively, and the Home Office cannot, therefore, be certain that it is always procuring goods and services in accordance with procurement regulations, or that payments match appropriately authorised orders.
- The Home Office also exposed itself to the risk of irregular expenditure on grants because of inadequate monitoring regimes. For example there was a lack of robust checking that grants to local authorities in respect of asylum seeker costs are only in respect of eligible asylum seekers, and some weaknesses in the evidence that Crime and Disorder Reduction Partnership grants are spent in accordance with the terms and conditions of this initiative. However neither our nor NAO's work has identified any issues of fraud.



- The Home Office failed to effectively monitor income against the Appropriation-in-Aid limit and also in not being proactive in getting up-to-date information from agencies, or properly validating their accounts and detailed budgets.

The Home Office faces a further challenge in 2006-07 to ensure that it has a regime in place in respect of funding for Local Area Agreements which provides sufficient assurance that this funding is spent on Home Office objectives.

#### *2006-07 Resource Accounts*

The Home Office faces significant challenges in 2006-07 given that many underlying system weaknesses continued into the current financial year, and a full assessment of remedial action is now taking place. It is unlikely that significant benefits from the Financial Improvement Strategy will start to be realised until 2007-08. The Home Office will continue to rely mainly on manual and remedial processes for production of the 2006-07 accounts.

In addition, there will be additional accounting challenges over the next two years with the transfer of the Home Office's Communities portfolio to the Department for Communities and Local Government and the Cabinet Office during 2006-07 and the proposal to confer Agency status on the Immigration and Nationality Directorate for 2008-09.

We have made progress this year. However I and my staff do recognise the considerable challenges ahead.

#### *Improving financial management and accounting systems*

We are now improving our financial management and accounting systems, addressing the issues that were reflected in the Report of the Comptroller and Auditor General on the 2004-05 Home Office Resource Accounts, together with the issues faced during the 2005-06 accounts production and audit. This will be a long and intensive process, but one that is absolutely necessary to ensure the Home Office has appropriate controls over financial management.

The Department's Reform Plan makes it clear that I, the Home Secretary, and the senior finance team place the highest importance on effective finance systems. Steps have been taken to secure immediate improvements in the 2005-06 Accounts production process and to lay strong foundations for the future.

We have:

- a strong senior leadership team in place that has given highest priority to the Accounts production and improvement agenda;
- restructured the financial accounting function;
- more than doubled the number of professionally qualified staff within the finance function and introduced a training programme to ensure that all finance staff are appropriately skilled.
- established an Assurance Board to provide regular and systematic oversight of the improvement programme. This board includes senior representatives from Treasury, NAO and the Audit Committee;
- reconciled both the Paymaster General and Commercial Accounts;
- re-assigned responsibility for cash management, which will underpin the drive to carry out monthly cash reconciliations, as part of the normal period end process;
- undertaken a fundamental review of debtors and creditors and reconciled these accounts;
- established a much more robust fixed asset register;
- simplified the accounts production process; and
- strengthened quality with more robust analytical and documented review processes.

However, this will take time to implement. I am determined that a complete and total assessment of the existing control weaknesses is undertaken and this has already begun. In this way we can ensure that the improvements in financial management and accounting systems are properly targeted to address the full range of issues we face.

We are therefore driving forward a Financial Improvement Strategy through a dedicated programme team, that will lead to significant and sustainable improvements. It will identify and address our current process and controls weaknesses and stabilise our systems for capture and process of financial data.

The Strategy is divided into four phases, the objectives of which are set out below:

Stage 1 To consolidate knowledge from work already done and from across the Department resulting in remediation assessment of controls environment.

Stage 2 To stabilise the control environment including implementation of actions from remediation plans and assessment of risk associated with each balance sheet account, and to ensure regular and timely balance sheet reconciliations are completed.

Stage 3 To sustain a robust control environment throughout the Department, building upon the achievements from Stage 2.

Stage 4 To identify areas of best practice and work towards faster closing.

I and my staff are committed to achieving Stages 1 and 2 of the Financial Improvement Strategy by 31 March 2007, such that the Home Office can begin the financial year 2007-08 with a stable financial control environment.

We will be further strengthening our staff capability and skills through:

- the launch of a 'Finance Skills For All' training initiative, drawing on HM Treasury material as part of the wider Professional Skills for Government agenda;
- promoting a new Finance Fast Stream option for fast track staff;
- regular Financial Management courses for budget holders and strengthened financial system training. Together with new role based guidance for budget holders, this will directly address NAO concerns raised on the 2004-05 Accounts; and
- new Financial Management Health Checks of business areas, a tool to assess current capability and to map out an action plan for building capability. This will be piloted in two major business units in the autumn.

These measures form part of a wider Financial Management Reform agenda, which includes:

- improved regular, monthly financial reporting to the Home Secretary and Ministers;
- inclusion of a mandatory finance section within all ministerial submissions, detailing how policies will be afforded within current budgets;
- strengthening controls through a stronger "gateway" to identify and stem the flow of unaffordable policies at the outset;
- a new systems of incentives and penalties to ensure business areas remain within budgets; and
- a programme of financial health checks with each business area to ensure that finance capability is embedded.

To support delivery of these initiatives, we have recently appointed a senior Treasury official to:

- take stock of progress on both the financial and budget reforms we have initiated;
- identify where further progress can be achieved; and
- implement an integrated reform package.

I, together with the Home Office Audit Committee will actively monitor progress to ensure the financial control environment is significantly strengthened and to enable the Home Office to be in a position where it can deliver timely and accurate financial accounts in line with the Government's faster accounts closing initiative.

David Normington  
Accounting Officer  
27 November 2006

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

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

### Respective responsibilities of the Accounting Officer and auditor

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

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

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

I review whether the statement on pages 24 to 34 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Department's scope, purpose and objectives, performance review, financial review, management of the Department, corporate governance, public interest and other and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with auditing standards issued by the United Kingdom Auditing Practices Board, except that the scope of my work was limited as explained below.

My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

The scope of my audit was limited in respect of the accruals balance of £592,503,322 at 31 March 2006 and associated expenditure, as the Home Office was unable to provide sufficient evidence that the balance had not been overstated.

I disclaimed my opinion on the financial statements for 2004-05 because the Home Office had not maintained proper accounting records which would enable them to disclose with reasonable accuracy, at any time, the financial position of the Department. The Home Office have revised the 2004-05 balance sheet, and I am content that that the comparative balance sheet included in these accounts presents a true and fair view. Because of the problems faced in 2004-05, the Home Office has been unable to provide sufficient evidence to verify the comparative figures in respect of the 2004-05 income, expenditure and cash flow without incurring undue cost and delays, and I am, therefore, unable to express an opinion on the 2004-05 comparative figures for the Statement of Parliamentary Supply, Operating Cost Statement, the Cash Flow Statement, Statement of Operating Costs by Departmental Aim and Objectives and their associated Notes. Further details of this are set out in Notes 1.23, 1.24 and 1.25 of the accounts, and in my Report.

#### **Qualified Opinion arising from a Limitation of Scope**

In my opinion:

- Except for any adjustments that may have been found to be necessary had I been able to obtain sufficient evidence concerning:
  - the accruals balance at 31 March 2006; and
  - the comparative figures for the Statement of Parliamentary Supply, Operating Cost Statement, the Cash Flow Statement, Statement of Operating Costs by Departmental Aim and Objectives and their associated Notes;

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

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with H M Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the limitation on my work relating to the accruals balance at 31 March 2006 and corresponding expenditure, and to the 2004-05 income, expenditure and cash flow figures:

- I have not obtained all the information and explanations that I considered necessary for the purposes of my audit; and
- I was unable to determine whether proper accounting records had been maintained.

Details of these matters are set out in my Report on pages 38 to 43.

**John Bourn**  
**Comptroller and Auditor General**

**8 December 2006**

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

## Report of the Comptroller and Auditor General

### Executive Summary

I have qualified my opinion on the Home Office 2005-06 Resource Accounts because Accounting Standards require these accounts to include the 2004-05 results. My qualification of the Department's 2004-05 Resource Accounts, therefore, runs through to the 2005-06 Resource Accounts. But for this, and the qualification relating to its accruals at 31st March 2006 and the corresponding expenditure, I would have been able to give an unqualified opinion on the truth and fairness of the Home Office 2005-06 Resource Accounts.

Further details are given below.

### Introduction

1. The purpose of the Home Office (the Department) is to build a safe, just and tolerant society, to enhance opportunities for all, and to ensure that the protection and security of the public are maintained and enhanced.
2. The Resource Accounts of the Home Office consolidate the accounts of the core Department with those of HM Prison Service, the Identity and Passport Service, the Criminal Records Bureau and the National Probation Service.

### Purpose of Report

3. The purpose of this Report is to explain the background to the qualification and to report on the following:
  - progress on the issues raised in my report on the Home Office Resource Accounts for 2004-05;
  - the preparation of the Home Office Resource Accounts for 2005-06; and
  - steps taken by the Home Office to improve financial management.

### My obligations as auditor

4. Under the Government Resources and Accounts Act 2000 (the Act), I am required to examine and certify all departmental Resource Accounts received under the Act. I am required, under International Auditing Standards (UK and Ireland), to obtain evidence to give reasonable assurance that the Department's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I have qualified my opinion on the Home Office's 2005-06 financial statements due to a limitation in the scope of my audit and because I was unable to reach an opinion on significant elements of the Department's prior year accounts.

## Audit Opinion

### Qualified opinion owing to a limitation in scope arising in respect of the 31 March 2006 accruals balance and corresponding expenditure

5. Since the introduction of its new accounting system, in April 2005, the Home Office has been moving from a manual process for identifying year end accruals (liabilities to pay suppliers where no invoice has yet been received) to an automated system. 2005-06 was a transitional year and particular risks crystallised in respect of the closing accruals balance:
  - my audit testing identified overstatement within the accruals balance due to items being included in the balance which had been paid before the year end, items being included relating to 2006-07 activity and a lack of evidence for certain items. I was unable to gain enough assurance to conclude upon the level of error and hence the extent of the total overstatement of accrued expenditure at 31 March 2006;

- the Home Office has been unable to provide sufficient evidence that there is no significant duplication between manual accruals<sup>1</sup>, system accruals<sup>2</sup> and trade creditors<sup>3</sup>;
  - during 2005-06 systems weaknesses enabled invoices to be paid without being properly matched to system purchase orders. This weakness resulted in a high number and value of unmatched purchase orders at 31 March 2006, and insufficient evidence that all accruals resulting were valid. Additional work on this balance by the Home Office was insufficient to fully support the year end position; and
  - work to match Home Office records to supplier records proved difficult and time consuming. Home Office finance staff decided to defer work in this area in order to focus efforts on other aspects of the accounts production and audit process. Evidence providing assurance that Home Office records of sums owing were in agreement with those of suppliers was not, therefore, available.
6. As a result of these factors, the Home Office has been unable to provide sufficient evidence that accruals are not overstated. The Home Office has indicated that it will undertake further work to address these issues and, following any adjustments which might be necessary, hopes to be able to provide evidence to fully support this balance in the 2006-07 accounts.

#### **2004-05 income, expenditure and cashflow figures**

7. The pervasive and fundamental nature of the problems encountered during my audit of the 2004-05 financial statements, and the possible effects of the limitation in evidence available to me, meant that I was unable to reach an opinion as to whether the financial statements for that year showed a true and fair view<sup>4</sup>. The Home Office has undertaken further work on balances at 31 March 2005 and, where appropriate, these have been restated. A net adjustment of £17,263,000 has been made to net assets, as well as material reclassifications of assets and liabilities, in respect of Futurebuilders, and the Consolidated Fund Extra Receipt creditor. In addition, in 2004-05, errors in the Net Cash Requirement meant that the amount due from the Consolidated Fund to the Home Office was shown in that account as £101,645,000 higher than it would have been otherwise. Therefore, as this cannot form part of the prior year restatement, an adjustment has been made to the 2005-06 Net Cash Requirement which has the effect of reducing the amount due from the Consolidated Fund to the Home Office at 31 March 2006 by a corresponding amount. An explanation for the prior year adjustment and reclassifications, and the adjustment to Supply, is disclosed in Notes 1.24 and 1.25 to the financial statements on page 57. My staff have audited the final adjusted balance sheet as at that date and I am satisfied that the restated figures show a true and fair view of the state of affairs of the Home Office at 31 March 2005.

8. However, it would not have been possible, without undue cost, for the Home Office to provide further evidence for, and my staff to audit, the 2004-05 income, expenditure and cashflow figures. My opinion on the 2005-06 Resource Accounts is, therefore, qualified in respect of the 2004-05 Statement of Parliamentary Supply, Operating Cost Statement, Cash Flow Statement, Statement of Operating Costs by Departmental Aim and Objectives and their associated Notes.

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<sup>1</sup> Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. A manual accrual must be created by a person.

<sup>2</sup> A system accrual is generated automatically by the accounting system.

<sup>3</sup> Trade creditors are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier.

<sup>4</sup> Home Office Resource Accounts 2004-05, HC826, Session 2005-06, pp22-23.



## Progress on the issues raised in my previous Report in respect of the new accounting system

### Overview

9. I certified the Home Office Resource Accounts for 2004-05 on 26 January 2006, issuing a disclaimed audit opinion. The late completion of the 2004-05 accounts, and the underlying issues which resulted in the disclaimed audit opinion, meant that the Home Office was faced with considerable challenges in producing robust 2005-06 accounts, on a timely basis.

10. The Home Office has been able to produce Resource Accounts for 2005-06 earlier than in recent years, having taken action to tackle the problems associated with the previous years' accounts. This situation represents a significant step forward for the Home Office, with supporting audit files and documentation provided with the accounts also being of an improved quality when compared with 2004-05. There remains considerable room for further improvement, but the engagement and involvement of senior management has strengthened the audit and accounts process in 2005-06. This rate of improvement will, nevertheless, need to be sustained to establish an appropriate accounting and control environment to a standard, which would be considered acceptable, for an organisation of the size and complexity of the Home Office.

11. I set out below my comments on the key issues which remain outstanding, together with those significant matters, identified during the 2005-06 audit process, which will need to be addressed. The Home Office has acknowledged these issues within its Statement on Internal Control<sup>5</sup>, the implementation of appropriate actions and processes to address them will be central to actually improving the financial and control environment.

### Control weaknesses

12. In my previous report<sup>6</sup> I described difficulties surrounding the implementation of a new accounting system (the Adelphi System) within the Home Office which undermined the Department's ability to produce accounts, showing a true and fair view, for the year ended 31 March 2005, by the statutory deadline of 30 November 2005. The Home Office has taken steps to improve the overall quality of data in its accounting system by undertaking a detailed review of the amounts included in every major balance. This review highlighted a significant number of errors affecting balances at 31 March 2005 and the operating cost statement for 2004-05. The Home Office has yet to develop fully a robust control environment over the processing of data into the finance system, including providing all staff with appropriate training and guidance.

13. The Adelphi system is an integrated finance, human resources and procurement system which is designed to automate manual processes, bring greater efficiency and control and improve the timeliness and quality of information. Since I last reported, the system controls have been enhanced with the implementation of the procurement module, and steps have been taken to address weaknesses around access to the system. However, to be successful the processes and systems supporting such an integrated system need to be aligned to improve the overall efficiency and general control environment. Our findings from the testing of transactions concluded that manual records that underpin transactions such as payroll files, invoices and supporting evidence for journal entries to the system were not always readily available, and in some cases could not be found. The Home Office had to undertake additional work to provide suitable alternative sources of evidence to support some of the transactions tested by my staff.

14. As noted above, considerable progress was made this year in the production of the accounts, due to significant remedial action being taken after the year-end. However, as recognised by the Home Office in its Statement on Internal Control<sup>7</sup>, due to the delays in finalising the prior year accounts, many of the system and control weaknesses I reported on last year were also present during 2005-06. In particular:

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<sup>5</sup> pp 24-34.

<sup>6</sup> Home Office Resource Accounts 2004-05, HC826, Session 2005-06, pp24-29.

<sup>7</sup> pp 24-34.

- controls around access to the accounting systems are still not fully embedded;
- key reconciliations, which should have been carried out monthly, were only carried out after the year-end. In-year data could not, therefore, be effectively validated, undermining management control over income and expenditure;
- during 2005-06 the Home Office's cash management procedures were ineffective resulting in a significant overdraft of £246 million with the Office of the Paymaster General at the year end, and sums undrawn of £299.6 million in respect of financing from the Consolidated Fund;
- personnel records were difficult to locate, and some could not be found at all;
- the Home Office does not have adequate controls to reconcile the payroll and personnel records to determine exact staff numbers. There are also weaknesses in the data held within the personnel system;
- it is possible for purchase orders to be created retrospectively, and the Home Office cannot, therefore, be certain that it is always procuring goods and services in accordance with procurement regulations, or that payments match appropriately authorised orders;
- the Home Office's inability to reconcile its records of amounts owing to suppliers to suppliers' records, and the weaknesses in matching purchase orders and invoices, is evidence that key management controls are not being carried out regularly;
- over reliance on manual returns at the year end lead to risks of duplication or omission of certain accounting information within the financial statements;
- the Home Office exposed itself to the risk of irregular expenditure on grants because of poor monitoring regimes; and
- information provided to my staff to support the amounts included in the financial statements was sometimes incomplete, did not display adequate checks of completeness or the information did not fully reconcile to figures within the accounts.

#### **Preparation of 2005-06 Resource Accounts**

15. Between January and May 2006 the Home Office took steps to ensure that all bank reconciliations had been properly carried out up to 31 March 2006 as the failure to reconcile balances fully and regularly had been a major factor in the accounting weaknesses of 2004-05.

16. The Accounts Branch in Liverpool was closed at 31 March 2006 and staff were recruited to fill posts in the Accounts and Finance Unit (AFU) in London. This restructuring has created significant challenges for the 2005-06 accounts production process. The key staff producing the accounts were not in post until April and May 2006 and there was minimal handover information and a lack of supporting files from 2004-05. New staff had limited knowledge of the disparate business activities of the Home Office and were not, therefore, in a position to challenge or validate effectively the information that was being provided by business units. The recruitment of permanent staff has taken much longer than anticipated. There is a high proportion of temporary staff filling posts, and only 34 per cent of posts had been filled permanently at November 2006. The dependence on temporary staff increases the risk of loss of knowledge and expertise and of a lack of effective scrutiny.

17. In March 2006, the Home Office put forward a timetable for presentation of the 2005-06 accounts for audit which set a target date of 30 September 2006 for certification by the Comptroller and Auditor General. However, this timetable did not take sufficient account of the scale of the accounts preparation and audit required following the disclaimer of the 2004-05 accounts. Therefore, in June 2006, the Home Office reported to the Committee of Public Accounts that it was discussing with the Treasury and the NAO whether it would be prudent to delay signing the 2005-06 financial statements until 31 October 2006 in order to ensure that the accounts were of the highest possible quality.

18. Ultimately, the revised timetable also proved too challenging, and delays in resolving the fixed assets position, reconciling debtor and creditor accounts, determining the Home Office's position in respect of Exchequer financing and identifying comparative figures for the core accounts meant that the first consolidated financial statements were provided to my staff on 7 September 2006. The Home Office recognised that these financial statements were incomplete in respect of the Cash Flow Statement and the General Fund Note, and required further work and quality assurance. More reliable revised consolidated accounts were submitted for audit on 4 October 2006.

19. These difficulties in producing fully supported financial statements for 2005-06 emphasise the importance of Home Office senior management driving through their Financial Improvement Strategy so that the accounts production process becomes embedded in the financial management of the Department. As at November 2006, with the exception of the two main bank accounts, no balance sheet accounts have been fully reconciled since 31 March 2006. Reconciliations must be done regularly to provide assurance on the integrity of accounting records throughout the year, rather than just at the year end. Quality assurance processes on the 2005-06 Resource Accounts were considerably more developed than in prior years but further work is needed to ensure that the standard of evidence supporting the accounts is improved, and that robust challenge and validation is conducted by Home Office staff on supporting data, and in respect of the more complex accounting requirements such as provisions, and losses required to be reported to Parliament.

#### **Financial Improvement Strategy at the Home Office**

20. Following the independent assessment of the factors that prevented the timely preparation of the 2004-05 accounts, the Home Office has recognised the need to put in place a Financial Improvement Strategy with the overall aim of ensuring that "robust financial systems and processes are embedded in the culture and environment of the Home Office".

21. My staff reviewed the steps taken by the Home Office by October 2006 in developing and implementing the Financial Improvement Strategy. A project initiation document was produced in September 2006 which set out the overall objectives of the project, the key deliverables and project structure for the first phase of the project. This involves the Home Office documenting all significant process streams identified; improving the reconciliation controls in place; developing procedures to improve the speed and quality of financial accounts and developing plans of action. My staff identified that the project would benefit from an overall strategy providing:

- a statement of "where the Home Office is now" i.e. an assessment of the current Home Office environment, including stakeholders affected by the strategy;
- the establishment of "where the Home Office wants to be" with relevant objectives and targets; and
- a plan of action for meeting them with clear metrics against which to assess progress.

22. The Home Office faces significant challenges in 2006-07 given that many underlying system weaknesses have continued into the current financial year and a full assessment of remedial action is only now taking place. It is unlikely that significant benefits from the Financial Improvement Strategy will start to be felt until 2007-08. The Home Office will continue to rely mainly on manual and remedial processes for production of the 2006-07 accounts. There will be additional accounting challenges over the next two years with the transfer of the Home Office's Communities portfolio to the Department for Communities and Local Government and the Cabinet Office during 2006-07 and the proposal to confer Agency status on the Immigration and Nationality Directorate for 2008-09. Consolidating, and building on, the progress made in respect of the 2005-06 accounts production should, nevertheless, facilitate further improvements and timely production of the 2006-07 accounts.

23. I am satisfied that the Home Office has recognised the need to enhance its financial management and is putting appropriate action in hand. Its success will depend on a sustained focus at senior levels to drive through the process and cultural changes necessary to support effective financial management across the Department's activities. The Home Office finance function will also need to reduce its reliance on consultancy and temporary staff input, developing high quality in-house professional finance skills.

**John Bourn**  
**Comptroller and Auditor General**

**8 December 2006**

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

## Remuneration Report

### Remuneration policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Senior Salaries Review Body.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

In making recommendations, the Review Body considers any factors that the Government and other witnesses may draw to its attention. In particular it has regard to:

- differences in terms and conditions of employment between the public and private sector and between the remit groups, taking account of relative job security and the value of benefits in kind;
- changes in national pay systems, including flexibility and the reward of success; and job weight in differentiating the remuneration of particular posts;
- the need to maintain broad linkage between the remuneration of the three main remit groups, while allowing sufficient flexibility to take account of the circumstances of each group; and
- the relevant legal obligations, including anti-discrimination legislation regarding age, gender, race, sexual orientation, religion and belief and disability.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

### Service contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' recruitment code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Unless otherwise stated, the officials covered by this report hold appointments which are open-ended until they reach the normal retirement age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

### Remuneration Committee

The Home Office remuneration committee determines the salaries paid to Senior Civil Servants within the Home Office. During 2005-06 the committees comprised of:

<b>Pay Band 3 Remuneration Committee</b>
David Normington (Chair), Leigh Lewis (Permanent Secretary of DWP) and Derrick Anderson (Non-Executive Director).
<b>Pay Band 2 Remuneration Committee</b>
David Normington (Chair), Helen Edwards, Moira Wallace, Helen Kilpatrick, Lin Homer and Phil Wheatley.
<b>Pay Band 1 Remuneration Committee</b>
John Marsh (Chair), Gareth Hadley, Ken Sutton, David Seymour and Christine Stewart.

The system of relative assessment means that jobholders are ranked in tranches. Managers and pay committees place staff in tranches by examining performance against the following criteria:

- whether objectives were met or exceeded;
- how critical the objectives were to the delivery of the Department's Public Service Agreements;
- how stretching the objectives were;
- how the objectives were met including the management and development of staff and promoting equality of opportunity; and
- any external factors which might have affected achievement.

In determining the salaries, the pay committees take account of the following factors:

- relative rating of contribution;
- progression based on position on the pay range;
- any emerging anomalies that need to be addressed; and
- the overall cost envelope.

#### **Home Office Resource Accounts 2005-06**

The salary and pension entitlements of the most senior managers of the Department during 2005-06 were as follows:

#### **Salary**

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. Benefits in kind are shown separately and relate to a contribution towards the provision of living accommodation in London for Helen Kilpatrick (Director General Financial and Commercial).

Ministers	2005-06		2004-05	
	Salary £	Benefits in kind (to nearest £100)	Salary £	Benefits in kind (to nearest £100)
Rt Hon Charles Clarke MP	74,902	–	18,215	–
Desmond Brown MP (left 9 May 2005)	9,713	–	28,347	–
Tony McNulty MP (joined 10 May 2005)	29,788	–	–	–
Caroline Flint MP (left 9 May 2005)	7,373	–	23,907	–
Andy Burnham MP (joined 10 May 2005)	26,320	–	–	–
Baroness Patricia Scotland of Asthal QC	113,042	–	89,954	–
Paul Goggins MP	29,491	–	23,907	–
Fiona McTaggart MP	31,467	–	23,907	–
Hazel Blears MP	35,616	–	31,497	–

Officials	2005-06		2004-05	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Sir David Normington (Permanent Secretary)	40–45 175-180 full year equivalent	–	–	–
Sir John Gieve (Permanent Secretary)	125–130 170-175 full year equivalent	–	170–175	–
William Jeffrey (Director General, Immigration & Nationality)	5–10 155-160 full year equivalent	–	150–155	–
Helen Edwards (Director General, Communities Group)	120–125	–	115–120	–
Helen Kilpatrick (Director General, Financial & Commercial)	150–155 160-165 full year equivalent	18,700	–	–
John Marsh (Group HR)	115–120	–	115–120	–
Leigh Lewis (Director General Crime Policing, Counter Terrorism and Delivery)	105–110 170-175 full year equivalent	–	160–165	–
Lin Homer (Director General, Immigration & Nationality)	130–135 195-200 full year equivalent	–	–	–
Mark Carroll (Director General Communities Group (Acting))	35–40 105-110 full year equivalent	–	–	–

Officials	2005-06		2004-05	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Martin Bryant (Director of Strategy)	150-155	–	85-90	–
Martin Narey (Chief Executive of the National Offender Management Service)	70-75 140-145 full year equivalent	–	155-160	–
Moira Wallace (Director General, Crime Policing & Counter Terrorism)	50-55 150-155 full year equivalent	–	120-125	–
William Nye (Director General (Acting), Finance & Commercial)	5-10 110-115 full year equivalent	–	95-100	–
Mary (Jane) Furniss (Chief Executive (Acting) Office for Criminal Justice Reform)	25-30 70-75 full year equivalent	–	–	–

The 2005 -2006 full year equivalent salary figures above do not include anything in respect of bonuses. See note 1.23 for treatment of prior year comparatives.

Non-Executive Board Members	2005-06		2004-05	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Denise Kingsmill CBE	10-15	–	10-15	–
Derrick Anderson CBE	10-15	–	10-15	–
Lord Carter of Coles	30-35	–	15-20	–

### Start and Leaving dates

Sir David Normington was appointed Permanent Secretary in January 2006 taking over from Sir John Gieve who left in December 2005. William Jeffrey was the Director General of Immigration & Nationality Directorate until April 2005. Ken Sutton took over as Acting Director General until Lin Homer was appointed in August 2005. Martin Narey was the Chief Executive of the National Offender Management Service (NOMS) until October 2005, when he left the Department for the post of Chief Executive of Barnardo's. Helen Edwards, who had been Director General of Communities Group took over as Chief Executive of NOMS in November 2005 and Mark Carroll became Acting Director General of Communities Group. Helen Kilpatrick joined the department in April 2005 as Director General of Financial & Commercial Directorate replacing William Nye who had been Acting Director General. Leigh Lewis was Director General of Crime, Policing, Counter Terrorism and Delivery until November 2005 when he left the department for the Department of Works and Pensions. He was succeeded by Moira Wallace who moved from Chief Executive of the Office for Criminal Justice Reform (OCJR) and she was in turn replaced by Mary (Jane) Furniss who served as acting Chief Executive of OCJR.



## Pensions

Ministers	Accrued pension at age 65 as at 31 March 2006 £'000	Real increase in pension at age 65 £'000	CETV* at 31 March 2006 £'000	CETV* at 31 March 2005 £'000	Real increase in CETV* £'000
Rt Hon Charles Clarke MP	5-7.5	0-2.5	79	63	8
Desmond Browne MP	2.5-5	0-2.5	35	34	1
Tony McNulty MP	2.5-5	0-2.5	37	29	4
Caroline Flint MP	0-2.5	0-2.5	11	10	0
Andy Burnham MP	0-2.5	0-2.5	4	0	2
Baroness Patricia Scotland of Asthal QC	10-12.5	0-2.5	108	84	11
Paul Goggins MP	0-2.5	0-2.5	22	14	5
Fiona McTaggart MP	0-2.5	0-2.5	20	12	4
Hazel Blears MP	2.5-5	0-2.5	38	27	5

\* Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

## Ministerial pensions

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

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with the changes in the Retail Prices Index. Members pay contributions of 6 per cent of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9 per cent to 10 per cent from 1 April 2004. There is also an employer contribution paid by the Exchequer representing balance of cost. This is currently 24 per cent of the ministerial salary.

Officials	Accrued pension age 60 as at 31 March 2006 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31 March 2006 £'000	CETV at 31 March 2005 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account Nearest £100
Sir David Normington (Permanent Secretary)	65-67.5 plus lump sum of 197.5-200	0-2.5 plus lump sum of 2.5-5	1,386	1,117	24	-
Sir John Gieve (Permanent Secretary)	62.5-65 plus lump sum of 192.5-195	2.5-5 plus lump sum of 7.5-10	1,450	1,132	72	-

	Accrued pension age 60 as at 31 March 2006 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31 March 2006 £'000	CETV at 31 March 2005 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account Nearest £100
William Jeffrey ( <i>Director General, Immigration &amp; Nationality</i> )	60–62.5 plus lump sum of 180–182.5	0–2.5 plus lump sum of 0–2.5	1,430	1,293	15	–
Helen Edwards ( <i>Director General, Communities Group</i> )	5–7.5 plus lump sum of 2.5–5	0–2.5 plus lump sum of 0–2.5	121	72	30	–
Helen Kilpatrick ( <i>Director General, Finance and Commercial</i> )	0–2.5 plus lump sum of 0–2.5	0–2.5 plus lump sum of 0–2.5	23	–	23	–
John Marsh (Group HR)	27.5–30 plus lump sum of 82.5–85	0–2.5 plus lump sum of 5–7.5	413	281	27	–
Leigh Lewis ( <i>Director General Crime Policing, Counter Terrorism &amp; Delivery</i> )	65–67.5 plus lump sum of 197.5–200	0–2.5 plus lump sum of 2.5–5	1,379	1,102	24	–
Lin Homer ( <i>Director General, Immigration &amp; Nationality</i> )	0–2.5 plus lump sum of 0–2.5	0–2.5 plus lump sum of 0–2.5	18	–	18	–
Mark Carroll ( <i>Director General Communities Group (Acting)</i> )	2.5–5.0 plus lump sum of 12.5–15	0–2.5 plus lump sum of 0–2.5	74	48	10	–
Martin Bryant ( <i>Director of Strategy</i> )	2.5–5 plus lump sum of 0–2.5	0–2.5 plus lump sum of 0–2.5	47	14	30	–
Martin Narey ( <i>Chief Executive of the National Offender Management Service</i> )	52.5–55 plus lump sum of 160–162.5	0–2.5 plus lump sum of 0–2.5	998	779	10	5,100
Moira Wallace ( <i>Director General, Crime, Policing and Counter Terrorism</i> )	30–32.5 plus lump sum of 92.5–95	0–2.5 plus lump sum of 2.5–5	472	345	15	–
William Nye ( <i>Director General (Acting), Finance &amp; Commercial</i> )	15–17.5 plus lump sum of 50–52.5	0–2.5 plus lump sum of 0–2.5	237	172	4	–
Mary (Jane) Furniss ( <i>Chief Executive (Acting) Office for Criminal Justice Reform</i> )	30–32.5 plus lump sum of 95–97.5	2.5–5 plus lump sum of 10–12.5	613	425	77	66,100

### **Civil Service Pensions**

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). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

### **Cash Equivalent Transfer Values**

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

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

### **Real increase in CETV**

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

David Normington  
Accounting Officer  
27 November 2006

## Statement of Parliamentary Supply

### Summary of Resources Outturn 2005-06

	2005-06 Estimate			2005-06 Outturn			2004-05 Outturn		
							<i>Net Total outturn compared with Estimate saving/ (excess)</i>		<i>Prior year outturn</i>
	<i>Gross Expenditure</i> £000	<i>A in A</i> £000	<i>Net Total</i> £000	<i>Gross Expenditure</i> £000	<i>A in A</i> £000	<i>Net Total</i> £000	£000	£000	
Request for resources 1 (Building a safe, just and tolerant society)	14,368,594	(908,455)	13,460,139	14,319,465	(908,455)	13,411,010	49,129	12,535,359	
<b>Total resources</b>	<b>14,368,594</b>	<b>(908,455)</b>	<b>13,460,139</b>	<b>14,319,465</b>	<b>(908,455)</b>	<b>13,411,010</b>	<b>49,129</b>	<b>12,535,359</b>	
Non-operating cost A in A		(40,408)			(40,408)		–	(17,128)	

		2005-06 £000	2005-06 £000	2004-05 £000
	<i>Note</i>	<i>Estimate</i>	<i>Outturn</i>	<i>Outturn</i>
Net cash requirement	4	13,611,575	13,204,848	12,309,371

#### Summary of income payable to the Consolidated Fund

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

	<i>Note</i>	Forecast 2005-06 £000		Outturn 2005-06 £000	
		<i>Income</i>	<i>Receipts</i>	<i>Income</i>	<i>Receipts</i>
Total	5	(137,218)	(137,218)	(352,531)	(357,679)

## Operating Cost Statement

for the year ended 31 March 2006

	Note	2005-06 £000			2005-06 £000			2004-05 £000	2004-05 £000
		Core Department			Consolidated			Core Department	Conso- lidated
		Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income		
<b>Administration Costs:</b>									
Staff Costs	9	273,717			421,205			278,051	2,161,507
Other administration costs	10		436,635			667,848		872,797	1,956,422
Income	12			(148,976)			(519,431)	(231,645)	(1,073,706)
<b>Programme Costs</b>									
<b>Request for resources 1</b>									
Staff Costs	9	478,726			2,484,446			491,803	566,802
Programme costs	11		10,771,775			10,807,095		9,094,279	8,841,228
Income	12			(403,318)			(728,188)	(215,091)	(135,059)
<b>Totals</b>		<u>752,443</u>	<u>11,208,410</u>	<u>(552,294)</u>	<u>2,905,651</u>	<u>11,474,943</u>	<u>(1,247,619)</u>	<u>10,290,194</u>	<u>12,317,194</u>
Net Operating Cost	3, 13			<u>11,408,559</u>			<u>13,132,975</u>	<u>10,290,194</u>	<u>12,317,194</u>

## Statement of Recognised Gains and Losses

for the year ended 31 March 2006

		2005-06		2004-05	
		£000		As Restated £000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Net gain/(loss) on revaluation of tangible fixed assets	14	155,897	157,591	127,124	(84,688)
Net gain/(loss) on revaluation of intangible fixed assets	15	(302)	(302)	–	–
Net gain/(loss) on revaluation of investments	16	–	(133)	–	–
Restatement of Fixed Assets opening balance	1.24	–	–	12,094	12,094
Actuarial gain related to pension scheme	9	–	26,787	–	74,375
Receipt/(disposal) of donated assets	23b	–	33	–	(3)
<b>Recognised gains and losses for the financial year</b>		<b>155,595</b>	<b>183,976</b>	<b>139,218</b>	<b>1,778</b>

## Balance Sheet

as at 31 March 2006

	Note	Core Department	2006 £000 Consolidated	As Restated Core Department	2005 As Restated £000 Consolidated
<b>Fixed assets:</b>					
Tangible assets	14	6,705,057	6,910,404	6,432,223	6,572,292
Intangible assets	15	3,984	4,163	5,681	6,118
Investments	16	60,000	60,339	34,809	35,281
		6,769,041	6,974,906	6,472,713	6,613,691
Debtors falling due after more than one year	18	–	4,908	–	5,790
<b>Current assets:</b>					
Stocks	17	104	41,617	72	43,011
Debtors	18	534,618	618,054	212,392	325,943
Cash at bank and in hand	19	149,067	185,058	97,514	113,005
		683,789	844,729	309,978	481,959
Creditors (amounts falling due within one year)	20	(1,189,064)	(1,554,480)	(971,004)	(1,125,109)
Overdraft at bank	19	(246,068)	(216,102)	(6,403)	–
<b>Net current assets</b>		<b>(751,343)</b>	<b>(925,853)</b>	<b>(667,429)</b>	<b>(643,150)</b>
<b>Total assets less current liabilities</b>		<b>6,017,698</b>	<b>6,053,961</b>	<b>5,805,284</b>	<b>5,976,331</b>
Creditors (amounts falling due after more than one year)	20	(349,887)	(623,977)	(363,255)	(679,447)
Provisions for liabilities and charges	21	(88,441)	(198,134)	(58,643)	(174,281)
		<b>5,579,370</b>	<b>5,231,850</b>	<b>5,383,386</b>	<b>5,122,603</b>
<b>Taxpayers' equity:</b>					
General fund	22	3,840,154	3,782,833	3,806,264	3,838,109
Revaluation reserve	23a	1,739,216	1,746,482	1,577,122	1,581,989
Donated asset reserve	23b	–	42	–	12
Pension Reserve	23d	–	(297,507)	–	(297,507)
		<b>5,579,370</b>	<b>5,231,850</b>	<b>5,383,386</b>	<b>5,122,603</b>

David Normington  
Accounting Officer

27 November 2006

## Consolidated Cash Flow Statement

*for the year ended 31 March 2006*

		<b>2005-06</b>	<b>2004-05</b>
		<u>£000</u>	<b>As restated</b>
	Note	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities	24a	(12,522,821)	(11,778,465)
Capital expenditure and financial investment	24b	(421,116)	(360,308)
Payments of amounts due to the Consolidated Fund		(198,999)	(212,076)
Financing	24d	<u>12,998,887</u>	<u>12,301,861</u>
Increase/(decrease) in cash in the period	24e	<u>(144,049)</u>	<u>(48,988)</u>



## Consolidated Statement of Operating Costs by Departmental Aims and Objectives

for the year ended 31 March 2006

Aim	2005-06		2004-05			
	Gross Operating Cost	Income	Net Operating Cost	Gross Operating Cost	Income	Net Operating Cost
	£000	£000	£000	£000	£000	£000
Objective 1	6,999,235	(139,314)	6,859,921	6,457,371	(70,405)	6,386,966
Objective 2	4,955,097	(548,831)	4,406,266	4,718,077	(737,770)	3,980,307
Objective 3	229,211	(42,242)	186,969	214,440	(1,388)	213,052
Objective 4	1,974,922	(513,559)	1,461,363	2,014,644	(394,793)	1,619,851
Objective 5	222,129	(3,673)	218,456	121,427	(4,409)	117,018
<b>Net operating costs</b>	<b>14,380,594</b>	<b>(1,247,619)</b>	<b>13,132,975</b>	<b>13,525,959</b>	<b>(1,208,765)</b>	<b>12,317,194</b>

Objective 1: People are and feel more secure in their homes and daily lives.

Objective 2: More offenders are caught, punished and stop offending and victims are better supported.

Objective 3: Fewer people's lives are ruined by drugs and alcohol.

Objective 4: Migration is managed to benefit the UK, while preventing abuse of the immigration laws and of the asylum system.

Objective 5: Citizens, communities and the voluntary sector are more engaged in tackling social problems and there is more equality of opportunity and respect for people of all races and religions.

## Notes to the accounts for the year ended 31 March 2006

### 1. Statement of Accounting Policies

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

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

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

As required by the FReM the format of these accounts has changed from 2004-05 and now shows the results of the Core Home Office (Core Department) and the Group.

Royal Assent was granted on 30 March 2006 to create the Identity and Passport Service. The Identity and Passport Service will incorporate the functions of the UKPS, and also deliver the Identity Cards scheme. The accounts have accordingly been prepared on a going-concern basis and no adjustments have been made to the carrying value of assets or liabilities.

#### 1.1 Accounting convention

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

#### 1.2 Basis of consolidation

These accounts comprise a consolidation of the core Home Office and its on Vote agencies, the Prison Service, the United Kingdom Passport Service and the Criminal Records Bureau, and also the National Probation Service. The agencies also produce and publish their own annual report and accounts. The accounts of the Forensic Science Service (which was a Trading Fund as at 31 March 2005, but became a Government owned company during the year), sponsored by the Home Office, are not included by way of consolidation. The Forensic Science Service is outside the Voted Supply and is subject to a different financial control framework. Financial information about the Forensic Science Service is published in their own separately published annual accounts.

#### 1.3 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. The capitalisation thresholds for expenditure on tangible fixed assets is £5,000 for the core Home Office (other than for furniture all of which is capitalised) and the Prison Service, £500 for the United Kingdom Passport Service, and £2,000 for the Criminal Records Bureau. On initial recognition, they are measured at cost, including any costs such as installation directly attributable to bringing them into working condition.

All tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations every 5 years and in the intervening years by the use of published indices appropriate to the type of land or building. Non property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

Residual interest in off-balance sheet PFI properties are included in tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual to the balance sheet date plus an adjustment based on the net present value of the change in the fair value of the residual as estimated at the start of the contract and its estimated fair value at the balance sheet date.

The Valuation Office Agency (VOA) carried out a desktop review of all prison land and buildings as at 31 March 2005. The existing use value of land has been amended to take into account alternative site values where appropriate. The indexation has been applied to the valuation of prison buildings and other land and buildings have been revalued in accordance with the VOA review.

#### 1.4 Intangible assets – software licences

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year. Published indices appropriate to the category of asset are normally used to estimate value. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

#### 1.5 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction and residual interests in off-balance sheet PFI contracts are not depreciated until the asset is brought into use or reverts to the department respectively. No depreciation is provided on freehold land and items for collections since they have unlimited or very long estimated useful lives. Asset lives are normally in the following ranges:

Buildings	up to 50 years or life of lease
Plant and equipment	2 – 15 years
Computers	2 – 10 years
Software	3 – 5 years
Vehicles	5 – 10 years
Furniture and fittings	3 – 12 years

#### 1.6 Donated assets

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

#### 1.7 Investments

Loans and public dividend capital (PDC) issued by the Home Office to the Forensic Science Service are shown at historic cost. The Forensic Science Service was converted into a government company during 2005-06. The Prison Service holds a number of investments as a result of its trading activities. Quoted investments are valued at market value. Unquoted investments are valued on the basis of estimated realisable value.

#### 1.8 Stocks and work-in-progress

Stocks and work-in progress are valued as follows:

- i) finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used;
- ii) work-in-progress is valued at the lower of cost, including appropriate overheads, and net realisable value;
- iii) the consumable stocks of the Prison Service are valued at current cost which is not materially different from historic cost.

### 1.9 Third party transactions

Cash and Bank balances exclude Third Party funds held by the Prison Service (Note 35).

### 1.10 Research and development costs

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets the criteria specified in SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP 13 to take account of not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost 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 project or according to the asset category if the asset is to be used for subsequent production work.

### 1.11 Operating income

Operating income is income which relates directly to the operating activities of the Home Office. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers as well as public repayment work. It also includes other income such as that from investments. It includes both income appropriated-in-aid and income due to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Operating income is stated net of VAT. Operating income also includes:

- i) the income from the Prison Service in respect of charges excluding VAT for goods and services provided to external customers;
- ii) the turnover of the UKPS and CRB from their continuing activities, representing the sale value of all services provided during the year.

### 1.12 Administration and programme expenditure

The operating cost statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. These include both the administration costs and associated operating income. Income is analysed in the notes between that which, under the administration cost-control 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, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

For the year ended 31 March 2006, the classification of expenditure and income as administration or programme was changed by HM Treasury. This has resulted in the transfer of the majority of income and expenditure relating to front-line services from administration to programme. The classification in the accounts is consistent with the new classification set by HM Treasury, however, the figures for the year ended 31 March 2005, included as comparatives in the 2005-06 accounts, have not been restated on the basis of the new classification. It is therefore not possible to undertake a comprehensive analysis of the movements in administration and programme costs from 2004-05 to 2005-06.

### 1.13 Capital charge

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

### 1.14 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate specified in the contract. Transactions which are not covered by a related forward contract 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 the period is used. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates at that date. These translation differences are dealt with in the Operating Cost Statement.

### 1.15 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Except in respect of dependants' benefits the Home Office recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees services by payments to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Home Office recognises the contributions payable for the year.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Home Office 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 resources accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensions.gov.uk](http://www.civilservicepensions.gov.uk)).

For 2005-06, employers' contributions of £320 million were payable to the PCSPS (2004-05 £220 million) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands. Rates will remain the same for the 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 experience of the scheme.

Past and present employees of the National Probation Service are covered by the provisions of the Local Government Pension Scheme (LGPS), which is statutory and is a funded scheme that currently has a shortfall. The 42 Probation Boards participate in the LGPS, administered by the appropriate local authority or body acting on behalf of the local authority. This is a defined benefit scheme meaning that retirement benefits are determined independently of the investments of the scheme and employers are obliged to make additional contributions where assets are insufficient to meet retirement benefits. Under the LGPS Regulations the pension funds are subject to an independent triennial actuarial valuation to determine each employer's contribution rate. As part of the terms and conditions of employment of its officers and other employees, the 42 Probation Boards offer retirement benefits. Although these will not actually be payable until employees retire, the 42 Probation Boards have a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

### 1.16 Early departure costs

The Home Office is required to meet the cost of paying the pensions of employees who retire early from the date of their retirement until they reach normal pensionable age. The department provides in full for the cost of meeting pensions up to normal retirement age in respect of early retirement programmes announced in the current or previous years.

### 1.17 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the department, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

### 1.18 Home Office grants

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 measurable activity that truly creates an entitlement for the recipient. However recognition of the entitlement of grant varies according to the individual recipient.

### 1.19 PFI Transactions

The Home Office has accounted for PFI transactions in accordance with Treasury Taskforce Guidance Technical Note 1 (revised) "How to Account for PFI transactions". The guidance allows for both on and off balance sheet transactions.

#### Off Balance Sheet Transactions

Where the balance of risks and rewards of ownership of PFI property are borne by the PFI operator payments are recorded as an operating cost. Where the department has contributed assets a prepayment for their fair value is recognised and amortised over the life of the PFI contract by a charge to the Operating Cost Statement. Where at the end of the PFI contract a property reverts to the Home Office, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge and a service charge.

#### On Balance Sheet Contracts

Where the balance of risks and rewards of ownership of the PFI asset are borne by the Home Office, the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

### 1.20 Provisions

The department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of 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 real rate set by HM Treasury (currently 2.2 per cent).

### 1.21 Contingent liabilities

In addition to contingent liabilities disclosed, 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:

- i) 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;
- ii) 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 FRM to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed 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.

### 1.22 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 tax is recoverable, the amounts are stated net of VAT.

### 1.23 Prior year comparatives

The Home Office Accounts for 2004-05 were disclaimed by the Comptroller and Auditor General. In relation to the audit process for 2005-06 a decision was taken by the Home Office to focus on providing evidence to support the opening and closing balance sheets and the 2005-06 Operating Cost Statement.

Work undertaken by the Home Office on prior year comparatives has shown that in some instances the comparative numbers were incorrect. In addition, new Parliamentary disclosure requirements for 2005-06 require the Home Office to separately identify comparatives for the Core Department within the consolidated accounts. Where this information was not easily available, the Home Office has made reasonable assumptions and estimates to enable comparatives to be included within supporting notes to the accounts.

### 1.24 Prior year restatement

The Home Office has also restated the 2004-05 comparative balance sheet and supporting notes. The largest restatements relate to Fixed Assets (tangible and intangible), other debtors, prepayments and accrued income, cash at bank and in hand and the CFER creditor. The table below shows the net total adjustments to these balances.

Prior Year Adjustment	Note	Total £000
<b>Consolidated Accounts</b>		
Opening General Fund	22	3,820,846
Fixed asset adjustment		12,094
Other adjustments		5,169
Restated opening General Fund		<u>3,838,109</u>
<b>Reclassifications</b>		
Other debtors, prepayments and accrued income	18	
Per 2004-05 Resource Accounts Adjustment:-		176,011
Futurebuilders		(64,162)
Other adjustment		(506)
As restated		<u>111,343</u>
Cash at bank and in hand	19	
Per 2004-05 Resource Accounts Adjustment:-		48,836
Futurebuilders		64,162
Other adjustment		7
As restated		<u>113,005</u>
<b>CFER Creditor</b>	20	
Per 2004-05 Resource Accounts		(122,559)
Adjustment		42,555
As restated		<u>(80,004)</u>

It was not deemed possible to restate the comparative figures within the Operating Cost Statement with a reasonable degree of accuracy due to the lack of appropriate accounting records following the 2004-05 disclaimed audit opinion.

### 1.25 Supply adjustment relating to 2004-05

The adjustment of £101,645,000 shown in Note 4 reflects errors in the Net Cash Requirement for 2004-05 resulting from the misclassification of cash held for the Futurebuilders project (for more details see Notes 19 and 30), and errors in the CFER creditor position. This adjustment has the effect of reducing the Net Cash Requirement for 2005-06 as shown in the Schedule of Parliamentary Supply. Adjustments have been made to the opening balances shown in the balance sheet, brought forward from 2004-05 by way of a prior period adjustment and reclassifications. The effect of these adjustments is shown in Note 1.24. However prior period adjustments cannot be made to Parliamentary Supply Schedules including the Net Cash Requirement and hence this has been treated as a current year transaction within the note. This approach is for the purpose of

parliamentary control and it ensures that resource and cash transactions are properly reported to Parliament.

The cash spent by the Department as reflected in the Net Cash Requirement affects the amount of financing due to the Department for Supply from the Consolidated Fund. In 2004-05, errors in the Net Cash Requirement meant that the amount due from the Consolidated Fund was shown in that account as £101,645,000 higher than it would have been otherwise. The adjustment to the Net Cash Requirement shown in Note 4 has the effect of reducing the amount due from the Consolidated Fund, for 2005-06, by a corresponding amount.

### **1.26 Accounting assumptions**

In relation to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives and Note 25, the information disclosed has been compiled using information obtained directly from the system based on cost centres.

Each area is specifically allocated to a single Home Office objective which has been specified at the Corporate level. The expenditure undertaken by each area is recorded separately in the Home Office accounting system. The spend on Central Services has been allocated on a proportional basis reflecting the overall spend by the department.

In relation to Capital Employed by Objective (Note 25b) the allocations are based on the proportion of the 2004-05 Capital Employed with the exception of Futurebuilders funding which has been allocated directly to Objective 5.



## 2. Analysis of net resource outturn by section

	Outturn					2005-06 £000 Estimate	2004-05 £000 Estimate	Net Total outturn compared with Estimate	Prior-year outturn
	Admin	Other Current	Grants	Gross resource expendi- ture	A in A	Net Total	Net Total		
<b>Request for Resources 1: Building a safe, just and tolerant society</b>									
SPENDING IN DEPARTMENTAL EXPENDITURE (DEL)									
Central Government Spending:									
A – Police	676	57,844	581,408	639,928	(15,175)	624,753	612,762	(11,991)	254,267
B – Crime reduction	16,771	24,036	167,779	208,586	–	208,586	213,610	5,024	207,943
C – Criminal Records Bureau	78,113	–	–	78,113	(75,864)	2,249	–	(2,249)	6,200
D – Organised and international crime	41,318	69,121	130,135	240,574	(761)	239,813	263,886	24,073	167,578
E – Drugs	8,931	6,069	209,681	224,681	(40,242)	184,439	194,606	10,167	207,078
F – Criminal justice	19,463	53,575	38,351	111,389	(20,575)	90,814	95,056	4,242	89,275
G – Communities Group	14,981	28,204	107,364	150,549	–	150,549	150,599	50	94,894
H – Futurebuilders	–	–	39,612	39,612	–	39,612	58,000	18,388	1,865
I – Corrections HQ	318,319	638,676	10,011	967,006	(69,094)	897,912	217,195	(680,717)	8,224
J – Prisons – private sector	11,650	230,903	–	242,553	–	242,553	147,387	(95,166)	203,012
K – Prisons – public sector	83,060	2,065,359	–	2,148,419	(350,846)	1,797,573	2,307,465	509,892	2,242,975
L – Probation HQ	(112,277)	26,034	53	(86,190)	–	(86,190)	171,704	257,894	169,619
M – Immigration and nationality	146,952	1,537,412	29,356	1,713,720	(198,692)	1,515,028	1,511,094	(3,934)	1,686,243
N – Passport service	217,463	–	–	217,463	(126,000)	91,463	5	(91,458)	(23,841)
O – Central Services	231,603	(5,876)	(11,609)	214,118	(11,206)	202,912	255,400	52,488	250,381
P – European Refugee Fund	–	–	7,369	7,369	–	7,369	1	(7,368)	2,517
Support for Local Authorities									
Q – Police grants	–	–	4,901,828	4,901,828	–	4,901,828	4,900,024	(1,804)	5,038,460
R – Loan Charges	–	–	13,282	13,282	–	13,282	13,060	(222)	12,655
S – Crime Reduction Grants	–	–	54,704	54,704	–	54,704	32,585	(22,119)	–
T – Organised & Int Crime Grants	–	–	59,342	59,342	–	59,342	55,284	(4,058)	–
U – IND Grants	–	–	–	–	–	–	506	506	–
SPENDING IN ANNUALLY MANAGED EXPENDITURE:									
Central Government Spending:									
V – Police Superannuation	–	–	4,100	4,100	–	4,100	4,138	38	493
Non-budget									
W – Police Information Technology Organisation	–	–	280,000	280,000	–	280,000	339,146	59,146	236,615
X – Central Police Training and Development Agency	–	–	97,700	97,700	–	97,700	94,261	(3,439)	85,176
Y – Independent Police Complaints Commission	–	–	29,750	29,750	–	29,750	27,467	(2,283)	26,424
Z – National Criminal Intelligence Service	–	–	85,508	85,508	–	85,508	82,511	(2,997)	79,707
AA – National Crime Squad	–	–	199,425	199,425	–	199,425	211,686	12,261	164,694
AB – Security Industry Authority	–	–	1,579	1,579	–	1,579	1	(1,578)	14,356
AC – Parole Board grant and non-budget PFI charges	–	–	6,400	6,400	–	6,400	5,413	(987)	4,238
AD – National Probation Service (local area boards)	–	–	778,468	778,468	–	778,468	782,664	4,196	693,068
AE – Youth Justice Board	–	–	447,425	447,425	–	447,425	420,925	(26,500)	373,922
AF – Criminal Injuries Compensation Authority	–	–	193,510	193,510	–	193,510	243,995	50,485	208,581
AG – Criminal Cases Review Commission	–	–	6,835	6,835	–	6,835	7,447	612	5,750
AH – Community Development Foundation	–	–	1,458	1,458	–	1,458	1,458	–	1,414
AI – Commission for Racial Equality	–	–	34,450	34,450	–	34,450	34,450	–	17,361
AJ – Office of the Immigration Service Commissioner	–	–	4,305	4,305	–	4,305	3,822	(483)	3,710
Fine Refunds to Carriers	–	288	–	288	–	288	–	(288)	505
Spending in Departmental Expenditure Limit (DEL)									
Central Government Spending:									
AK – Criminal justice grants	–	–	1,062	1,062	–	1,062	394	(668)	–
AL – Other grants	–	–	156	156	–	156	132	(24)	–
<b>Total Request for Resources 1</b>	<b>1,077,023</b>	<b>4,731,645</b>	<b>8,510,797</b>	<b>14,319,465</b>	<b>(908,455)</b>	<b>13,411,010</b>	<b>13,460,139</b>	<b>49,129</b>	<b>12,535,359</b>

The overall resource underspend of £49.1m reflects the net impact of the variances in the above table. Principal explanations for the variances in resource expenditure were lower than anticipated set-up costs for the Serious and Organised Crime Agency, underspend in respect of FutureBuilders, appropriations in aid exceeding Estimate limits for NOMS and the Identity and Passport Service, savings on the Electronic document Record Management project, profits from the sale of Horseferry House and lower expenditure on capital projects within the Police Information Technology Organisation.

A detailed explanation of the variances against the Departmental Expenditure Limited is provided in the Operating and Financial Review.

**3. Reconciliation of outturn to net operating cost and against Administration Budget****3(a) Reconciliation of net resource outturn to net operating cost**

	Note	<u>Outturn</u> £000	<u>Supply</u> <u>Estimate</u> £000	<u>2005-06</u> <u>Outturn</u> <u>compared</u> <u>with</u> <u>Estimate</u> £000	<u>2004-05</u> <u>Outturn</u> £000
Net Resource Outturn	2	13,411,010	13,460,139	49,129	12,535,359
Prior Period Adjustments		12,030	–	(12,030)	–
Non-Supply income (CFERs)	12	(281,833)	(74,510)	207,323	(245,335)
Non-Supply Expenditure		(8,232)	8,540	16,772	27,170
<b>Net Operating Cost</b>		<b><u>13,132,975</u></b>	<b><u>13,394,169</u></b>	<b><u>261,194</u></b>	<b><u>12,317,194</u></b>

**3(b) Outturn against final Administration budget**

	<u>Budget</u> £000	<u>2005-06</u> <u>Outturn</u> £000	<u>2004-05</u> <u>Outturn</u> £000
Gross Administration Budget	924,532	1,077,023	4,117,929
Income allowable against the Administration Budget	(219,173)	(519,431)	(832,721)
<b>Net outturn against the Final Administration Budget</b>	<b><u>705,359</u></b>	<b><u>557,592</u></b>	<b><u>3,285,208</u></b>

**4. Reconciliation of resources to cash requirement**

	Note	<u>Estimate</u> £000	<u>Outturn</u> £000	<u>Net total</u> <u>outturn</u> <u>compared</u> <u>with</u> <u>estimate:</u> <u>saving/</u> <u>(excess)</u> <u>As Restated</u> £000
Resource Outturn	2	13,460,139	13,411,010	49,129
Capital				
Acquisition of fixed assets		594,918	469,534	125,384
Investments		–	60,000	(60,000)
Non operating A in A				
Proceeds of fixed asset disposals		(40,408)	(40,408)	–
Accruals adjustments				
Non-cash items		(435,061)	(487,211)	52,150
Changes in working capital other than cash		14,178	(159,792)	173,970
Use of Provision	21	17,809	53,360	(35,551)
Adjustment due to 2004/5 Supply		–	(101,645)	101,645
<b>Net cash requirement</b>		<b><u>13,611,575</u></b>	<b><u>13,204,848</u></b>	<b><u>406,727</u></b>

The above reconciliation note is derived from items included in other primary statements and notes to these accounts. Movements in working capital are calculated with reference to the opening position as at 1 April 2005, which is unaudited and was disclaimed.

The adjustment related to the 2004-05 supply reflects an overstatement of the departmental Consolidated Fund Debtor balance at 31 March 2005 as an element of the Statement of Parliamentary Supply this balance cannot form part of the prior year restatement but reflects an adjustment to the prior year balance.

**5. Analysis of income payable to the Consolidated Fund**

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

	Note	Forecast 2005-06 £000		Outturn 2005-06 £000	
		Income	Receipts	Income	Receipts
Operating income and receipts – excess A in A		–	–	(153,190)	<i>(153,190)</i>
Other operating income and receipts not classified as A in A		(74,510)	<i>(74,510)</i>	(82,180)	<i>(80,712)</i>
Excess Receipts payable to the Consolidated Fund		–	–	–	<i>(6,616)</i>
		<u>(74,510)</u>	<u><i>(74,510)</i></u>	<u>(235,370)</u>	<u><i>(240,518)</i></u>
Non-operating income and receipts – excess A in A	7	–	–	(70,698)	<i>(70,698)</i>
Other non operating income and receipts not classified as A in A	8	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		(62,708)	<i>(62,708)</i>	(46,463)	<i>(46,463)</i>
<b>Total income payable to the Consolidated Fund</b>		<u><b>(137,218)</b></u>	<u><b><i>(137,218)</i></b></u>	<u><b>(352,531)</b></u>	<u><b><i>(357,679)</i></b></u>

Excess receipts relates to 2004-05 receipts not reported to Parliament within the 2004-05 accounts. The addition of this line ensures the year end cash due to the Consolidated Fund accurately reflects the amounts held by the Home Office.

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

	Note	2005-06	2004-05
		£000	£000
Operating income	12	(1,247,619)	(1,208,765)
Income authorised to be appropriated in aid		908,455	963,430
NPS Income		57,331	–
<b>Operating income payable to the Consolidated Fund</b>		<u><b>(281,833)</b></u>	<u><b>(245,335)</b></u>

**7. Non-operating income – Excess A in A**

	2005-06	2004-05
	£000	£000
Proceeds on disposal of fixed assets	(70,698)	–
Non operating income – excess A in A	<u>(70,698)</u>	<u>–</u>

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

The Home Office does not have non operating income not classified as A in A.

## 9. Staff Numbers and related costs

Staff costs comprise:

						2005-06	2004-05
	Total	Permanently employed staff	Others	Ministers	Special advisers	Total	
	£000	£000	£000	£000	£000	£000	
Wages and salaries	2,412,076	2,293,629	117,496	358	593	2,279,381	
Social security costs	169,450	168,936	414	35	65	163,691	
Other pension costs	370,807	369,751	943	-	113	285,237	
<b>Sub Total</b>	<b>2,952,333</b>	<b>2,832,316</b>	<b>118,853</b>	<b>393</b>	<b>771</b>	<b>2,728,309</b>	
Less recoveries in respect of outward secondments	(46,682)	(46,649)	(33)	-	-	-	
<b>Total Net Costs*</b>	<b>2,905,651</b>	<b>2,785,667</b>	<b>118,820</b>	<b>393</b>	<b>771</b>	<b>2,728,309</b>	
(*)Of which							
Charged to Admin Costs	421,205					2,161,507	
Charged to Programme Costs	2,484,446					566,802	
	<u>2,905,651</u>					<u>2,728,309</u>	
Core Department							
Charged to Admin Costs	273,717					278,051	
Charged to Programme Costs	478,726					491,803	
	<u>752,443</u>					<u>769,854</u>	

An insignificant proportion of the total net staff costs was charged to capital expenditure.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Home Office is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2005-06, employers' contributions of £320m were payable to the PCSPS (2004-05: £220m) at one of four rates in the range 16.2 to 24.6% (2004-05: 12 to 18.5%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

From 2006-07, the salary bands will, be revised and the rates will be in a range between 17.15 and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £215,451 (2004-05: £462,006) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5% of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £35,849 (2004-05: £22,850), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £ Nil.

Seven persons (2004-05: Nil) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £647,317 (2004-05: £ NIL).

The accounts of the National Probation Service (NPS) disclose the assets and liabilities of the Local Government Pension Scheme to which some members of the NPS belong.

**Number of persons employed**

The number of whole-time equivalent persons employed at the year end was as follows. These figures include those working in the department as well as in agencies and other bodies included within the consolidated departmental resource account. These figures are taken from the departmental annual report for 2006. They have not been full reconciled to the HR records however they are materially comparable to the position as at 31 March 2006. Agency and temporary staff are excluded from these figures.

Objective					2005-06	2004-05
	Total	Permanently employed staff	Others	Ministers	Special advisers	Total
1	1,059	1,026	27	3	3	1,773
2	69,836	68,072	1,762	1	1	358
3	215	207	6	1	1	70,851
4	20,664	19,914	748	1	1	20,150
5	280	275	3	1	1	244
	<u>92,054</u>	<u>89,494</u>	<u>2,546</u>	<u>7</u>	<u>7</u>	<u>93,376</u>
Of which:						
<b>Core Department</b>	<u><b>20,723</b></u>	<u><b>20,371</b></u>	<u><b>338</b></u>	<u><b>7</b></u>	<u><b>7</b></u>	<u><b>20,186</b></u>

The 2004-05 comparatives appear as reported in the published accounts however on review we noted that the figures for staff working against Objectives 2 and 3 were transposed.

Objective 1: People are and feel more secure in their homes and daily lives.

Objective 2: More offenders are caught, punished and stop offending and victims are better supported.

Objective 3: Fewer people's lives are ruined by drugs and alcohol.

Objective 4: Migration is managed to benefit the UK, while preventing abuse of the immigration laws and of the asylum system.

Objective 5: Citizens, communities and the voluntary sector are more engaged in tackling social problems and there is more equality of opportunity and respect for people of all races and religions.

Under the Local Government Pension Scheme Regulations the pension fund is subject to an independent triennial actuarial valuation to determine each employers contribution rate.

**Pension costs**

As part of the terms and conditions of employment of its officers and other employees, the 42 Probation Boards offer retirement benefits. Although these will not actually be payable until employees retire, the Board has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement

The provisions of the Local Government Pension Scheme (LGPS) cover present and past employees, which is statutory and fully funded. The 42 Probation Boards participate in the Local Government Pension Scheme, administered by various bodies.

The Local Government Pension Scheme provides benefits on a "final salary" basis at a normal retirement age of 65. Benefits accrue at the rate of one-eightieth of pensionable salary for each year of service. In addition, a lump sum equivalent to three eightieths of final pay of every year of total membership is payable on retirement.

Members pay contributions of 6% of pensionable earnings. Employers pay the balance of the cost of providing benefits, after taking into account investment returns.

This is a defined benefit scheme meaning that retirement benefits are determined independently of the investments of the scheme and employers are obliged to make additional contributions where assets are insufficient to meet retirements benefits.

A full actuarial valuation was carried out at 31 March 2004 by various actuaries. For 2005-06, employers' contributions of £78,766,000 were payable to the LGPS (2004-05 £57,100,000) in a range from 9.3% to 26.4%. The scheme's Actuary reviews employer contributions every three years following a full scheme valuation. The salary bands were revised for 2005-06 and will remain unchanged until 2007-08. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. Regulation 3 of the Local Government Pension Scheme introduces a new option into the retirement benefits of the Local Government Pension Scheme (LGPS) giving LGPS members retiring on or after 6 April 2006 the option to increase the amount of the tax-free lump sum from the current 3/80s of the pension to 25% of the value of the benefits in exchange for commuting (i.e. reducing) their annual pension. 24 board's have assumed that 50% of employees will take advantage of this change. Their actuaries have advised that this will reduce the value of the Probation Board's pension liabilities by £14.74 million, included as a Past Service Cost in the 'Pension Cost' disclosure below.

Actuaries for 18 board's have taken the view that there is insufficient reliable evidence to warrant any revaluation of the scheme.

Partnership accounts are excluded under FRS17

The approximate employer's pension contributions for the three years from:

- Employer's contributions for 2005-06 were 17.5% of salaries; and,
- Employer's contributions for 2006-07 will be 17.6% of salaries; and
- Employer's contributions for 2007-08 will be 17.6% of salaries.

**The major assumptions used by the actuary were:**

	31 March 2006	31 March 2005	31 March 2004
	%	%	%
Inflation assumption	2.9%	2.9%	2.8%
Rate of increase in salaries	4.5%	4.5%	4.3%
Rate of increase for pensions in payment and deferred pensions	2.9%	2.9%	2.8%
Discount rate	5.8%	6.4%	6.2%

**The assets in the scheme and the expected rate of return were:**

	Long-term rate of return expected at 31 March 2006	Value at 31 March 2006	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005	Long-term rate of return expected at 31 March 2004	Value at 31 March 2004
	%	£000	%	£000	%	£000
Equities	7.2%	1,241,565	7.6%	1,004,521	7.6%	886,180
Bonds	4.5%	287,959	4.8%	222,561	5.0%	201,557
Property	5.9%	152,999	6.2%	114,603	6.5%	92,525
Cash	4.6%	94,013	4.8%	66,496	3.6%	44,896
<b>Total market value of assets</b>		1,776,536		1,408,181		1,225,158
<b>Present value of scheme liabilities</b>		2,033,143		1,705,688		1,586,054
<b>Surplus/(Shortfall) of the scheme</b>		(256,607)		(297,507)		(360,896)
<b>Net pension asset/(liability)</b>		(256,607)		(297,507)		(360,896)

**Pension Cost**

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Current service cost	65,859	51,757
Past service cost	(14,735)	1,023
<b>Total operating charge</b>	<b><u>51,124</u></b>	<b><u>52,780</u></b>

**Analysis of amount credited to other finance income or debited to other finance charge**

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Expected return on pension scheme assets	97,633	86,472
Interest on pension scheme liabilities	(111,162)	(101,779)
<b>Net return</b>	<b><u>(13,529)</u></b>	<b><u>(15,307)</u></b>

**Analysis of amount recognised in statement of total recognised gains and losses (STRGL)**

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Actual return less expected return on pension scheme assets	246,053	54,137
Experience gains and losses arising on the scheme liabilities	(15,853)	23,586
Changes in assumptions underlying the present value of the scheme liabilities	(203,413)	(3,348)
<b>Actuarial gain/(loss) recognised in the STRGL</b>	<b><u>26,787</u></b>	<b><u>74,375</u></b>

**Movement in surplus/(shortfall) during the year:**

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Surplus/(shortfall) in scheme in the beginning of the year	(297,507)	(360,895)
Current service costs	(65,859)	(51,757)
Employer Contributions	78,766	57,100
Past service costs	14,735	(1,023)
Other finance income	(13,529)	(15,307)
Actuarial gain/(loss)	26,787	74,375
<b>Surplus/(shortfall) in scheme at the end of the year</b>	<b><u>(256,607)</u></b>	<b><u>(297,507)</u></b>

**History of experience gains and losses****Difference between the expected and actual return on scheme assets:**

	<b>2005-06</b>	<b>2004-05</b>	<b>2003-04</b>	<b>2002-03</b>
Amount in £000	246,053	54,137	132,366	(248,990)
Percentage of scheme assets	13.9%	3.8%	10.8%	(25.8%)
<b>Experience gains and losses on scheme liabilities:</b>				
Amount in £000	(15,853)	23,586	(3,912)	(2,292)
Percentage of the present value of the scheme liabilities	(0.8%)	1.4%	(0.2%)	(0.2%)
<b>Total amount recognised in statement of total recognised gains and losses:</b>				
Amount in £000	26,787	74,375	124,779	(254,392)
Percentage of the present value of the scheme liabilities	1.3%	4.4%	7.9%	(17.5%)

## 10. Other Administration Costs

	Note	2005-06		2004-05	
		Core Department	Consolidated	Core Department	Consolidated
		£000	£000	£000	£000
Rentals under operating leases		6,796	11,020	8	69,743
PFI service charges		40,575	83,105	147,410	292,680
Research and Development Expenditure		–	–	–	94
Non-cash items					
Depreciation		66,765	76,621	60,303	208,657
Amortisation		2,370	2,441	–	2,492
Downward revaluation	14	14,196	15,500	–	2,162
(Profit)/Loss on disposal of assets		(26,248)	(26,711)	4,069	2,562
Cost of Capital charges		17,965	20,472	12,090	168,213
Notional Charges		1,866	3,930	–	4,268
Auditors' remuneration and expenses		557	1,113	137	904
Provision provided for in year	21	66,151	68,412	19,662	80,174
Other					
Auditor's remuneration and expenses (cash)		–	–	441	1,790
Publication Stationery & Printing		15,580	40,272	17,540	31,548
Facilities Management & Services		84,657	146,005	275,922	520,547
Accommodation & Maintenance		99,006	115,853	143,047	272,973
Travel, Subsistence & Hospitality		16,699	20,361	31,301	34,652
Professional Fees		9,055	9,055	31,913	17,463
Media & IT		8,060	25,379	12,286	20,939
Community Services		–	20,873	–	14,172
Other Administration Expenditure		12,585	34,147	116,668	210,389
<b>Total</b>		<b>436,635</b>	<b>667,848</b>	<b>872,797</b>	<b>1,956,422</b>

The 2004-05 figures are unaudited and were disclaimed. Whilst we are content that the 2005-06 figures are materially correct, it is not possible for readers of these accounts to compare individual line items in the above note as part of a comprehensive analytical review.



## 11. Programme Costs

	Note	2005-06		2004-05	
		Core Department	Consolidated	Core Department	Consolidated
		£000	£000	£000	£000
Rentals under operating leases		167,657	178,322	-	-
Interest Charges		-	1	-	-
Finance Charges – Pension costs		-	13,529	-	-
PFI service charges		357,983	358,541	-	-
Non-cash items					
Depreciation		158,295	167,492	-	-
Downward Revaluation		-	135	-	-
(Profit)/Loss on disposal of fixed assets		(4,259)	(3,254)	-	-
Cost of Capital charges		178,418	170,408	-	-
Other Notional Charges		-	4,015	-	-
Auditors' remuneration and expenses		-	69	-	-
Provision provided for in year	21	-	8,801	-	-
Other					
Grants – Current		8,173,487	7,395,019	7,444,934	6,916,050
Grants – Capital		310,848	310,848	287,952	269,400
Contractual Costs (Asylum Centres)		-	-	-	77,058
Investments in FSS		-	-	-	1,249
Auditor's remuneration and expenses (cash)		-	1,280	-	-
Publication Stationery & Printing		42,003	42,003	29,514	28,650
Facilities Management & Services		153,956	360,332	46,295	47,981
Accommodation & Maintenance		324,497	587,899	317,512	439,417
Travel, Subsistence & Hospitality		38,389	55,952	14,434	16,731
Professional Fees		32,535	32,535	33	32
Media & IT		44,091	44,091	23,786	23,090
Community Services		748,176	1,001,929	766,131	822,913
Other programme costs		45,699	77,148	163,688	198,657
<b>Total</b>		<b>10,771,775</b>	<b>10,807,095</b>	<b>9,094,279</b>	<b>8,841,228</b>

The 2004-05 figures are unaudited and were disclaimed. Whilst we are content that the 2005-06 figures are materially correct, it is not possible for readers of these accounts to compare individual line items in the above note as part of a comprehensive analytical review.

## 12. Income

	2005-06		2004-05	
	Core Total	Consolidated Total	Core Total	Consolidated Total
	£000	£000	£000	£000
Appropriated in Aid				
Passport Fees	–	(116,000)	–	(121,639)
Non Cash notional income	–	(11,293)	–	–
Other Admin Income	(73,989)	(162,763)	(88,708)	(711,082)
Programme Income	(398,236)	(675,730)	(209,851)	(130,709)
Total Appropriated in Aid	(472,225)	(965,786)	(298,559)	(963,430)
Payable to Consolidated Fund				
Passport Fees	–	(46,463)	–	(95,171)
Excess receipts	–	(153,190)	(70,244)	–
Dividends on interest from FSS	–	–	(2,531)	–
Other Administration Income	(74,987)	(75,088)	(72,693)	(145,814)
Other Programme Income	(5,082)	(7,092)	(2,709)	(4,350)
Total payable to Consolidated Fund	(80,069)	(281,833)	(148,177)	(245,335)
<b>Total</b>	<b>(552,294)</b>	<b>(1,247,619)</b>	<b>(446,736)</b>	<b>(1,208,765)</b>
Of which				
Administration income	(148,976)	(519,431)	(231,645)	(1,073,706)
Programme Income	(403,318)	(728,188)	(215,091)	(135,059)
	<b>(552,294)</b>	<b>(1,247,619)</b>	<b>(446,736)</b>	<b>(1,208,765)</b>

12(a). An analysis of income from services provided to external and public sector customers is as follows:

Objective	2005-06			2004-05		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
1 Bomb Search Training	132	1,127	(995)	–	–	–
1 Police registration certificate	–	–	–	1,525	1,128	397
1 Data Subject Access Requests	2,131	1,088	1,043	–	–	–
1 HMIC chargeable inspection work/ Inspection of non-HO Police Forces	683	683	–	117	117	–
1 CRB	75,864	78,118	(2,254)	65,239	73,207	(7,968)
1 Perimeter detection system	2,683	2,683	–	2,341	2,341	–
1 Gun club licences	16	16	–	69	69	–
3 Licences issued under the misuse of drugs act	631	503	128	–	–	–
4 Nationality Fees	26,856	28,496	(1,640)	19,986	26,563	(6,577)
4 UK Passport Agency	284,601	261,982	22,619	245,770	218,276	27,494
4 Immigration: Detention Costs Recovered	1,412	29,262	(27,850)	1,269	40,670	(39,401)
4 Immigration: Certificates Right of Abode	89	500	(411)	77	382	(305)
4 Immigration: Additional Services	435	1,318	(883)	811	1,960	(1,149)
4 Travel documents refugee passports	613	5,084	(4,471)	793	4,475	(3,682)
4 Travel documents Certs of Identity	1,209	901	308	269	1,364	(1,095)
4 Work Permits	45,532	38,526	7,006	39,792	40,947	(1,155)
4 Accommodation provided for non Home Office Bodies	3,420	3,420	–	–	–	–
4 Leave to remain	128,795	97,420	31,375	54,261	65,572	(11,311)
4 Certificate of Approval	1,781	4,214	(2,433)	132	379	(247)
5 Animals (Scientific Procedures), Licences	3,524	3,445	79	3,520	3,437	83
	<b>580,407</b>	<b>558,786</b>	<b>21,621</b>	<b>435,971</b>	<b>480,887</b>	<b>(44,916)</b>

This analysis of income satisfies the Fees and Charges requirements of HM Treasury rather than SSAP25.

**13. Analysis of net operating cost by spending body**

	<u>Estimate</u>	<u>2005-06</u> <u>Total</u>	<u>2004-05</u> <u>Total</u>
	£000	£000	£000
<b>Spending body:</b>			
Core Department	3,817,316	4,488,555	3,446,699
HM Prison Service	2,307,465	1,797,472	1,588,780
UK Passport Service	5	(67,138)	(57,241)
Criminal Records Bureau	–	2,249	1,917
Non-departmental Public Bodies	1,472,582	1,108,345	1,915,522
Other Central Government	4,138	4,100	493
Local Authorities	5,001,459	5,029,156	4,764,328
Other Bodies (NPS)	791,204	770,236	656,696
<b>Net Operating Cost</b>	<b><u>13,394,169</u></b>	<b><u>13,132,975</u></b>	<b><u>12,317,194</u></b>

## 14. Tangible fixed assets

	Land & Building excluding Dwellings As restated	Vehicles As restated	Information Technology As restated	Plant & Equipment As restated	Furniture & Fittings As restated	Payments on Account & Assets under Construction As restated	Total As restated
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>							
At 1 April 2005*	6,474,083	12,368	143,459	186,290	34,649	323,640	7,174,489
Additions	51,569	1,344	35,300	40,387	4,271	338,483	471,354
Donations	–	–	–	–	–	–	–
Disposals	(33,863)	(730)	(24,268)	(10,132)	(4,186)	725	(72,454)
Transfers	261,652	–	931	8,934	–	(271,517)	–
Revaluations	203,656	134	(5,014)	2,936	227	–	201,939
<b>At 31 March 2006</b>	<b>6,957,097</b>	<b>13,116</b>	<b>150,408</b>	<b>228,415</b>	<b>34,961</b>	<b>391,331</b>	<b>7,775,328</b>
<b>Depreciation</b>							
At 1 April 2005*	(455,304)	(6,101)	(43,659)	(82,182)	(14,951)	–	(602,197)
Charged in year	(186,147)	(1,771)	(33,115)	(19,354)	(4,261)	–	(244,648)
Disposals	5,408	667	8,579	9,104	2,511	–	26,269
Transfers	(76)	–	32	44	–	–	–
Revaluations	(45,744)	(66)	2,425	(896)	(67)	–	(44,348)
<b>At 31 March 2006</b>	<b>(681,863)</b>	<b>(7,271)</b>	<b>(65,738)</b>	<b>(93,284)</b>	<b>(16,768)</b>	<b>–</b>	<b>(864,924)</b>
<b>Net book value at 31 March 2006</b>	<b>6,275,234</b>	<b>5,845</b>	<b>84,670</b>	<b>135,131</b>	<b>18,193</b>	<b>391,331</b>	<b>6,910,404</b>
<b>Net book value at 31 March 2005</b>	<b>6,018,779</b>	<b>6,267</b>	<b>99,800</b>	<b>104,108</b>	<b>19,698</b>	<b>323,640</b>	<b>6,572,292</b>
Asset financing:							
Owned	5,738,845	5,845	84,670	135,131	18,193	391,331	6,374,015
On-balance sheet PFI	471,950	–	–	–	–	–	471,950
<b>Net book value at 31 March 2006</b>	<b>6,210,795</b>	<b>5,845</b>	<b>84,670</b>	<b>135,131</b>	<b>18,193</b>	<b>391,331</b>	<b>6,845,965</b>
<b>Analysis of tangible fixed assets</b>							
<b>The net book value of tangible fixed assets comprises:</b>							
<b>Core Department 2006</b>	6,251,785	1,647	80,290	19,113	15,669	336,553	6,705,057
<b>Agencies 2006</b>	23,449	4,198	4,380	116,018	2,524	54,778	205,347
<b>Total</b>	<b>6,275,234</b>	<b>5,845</b>	<b>84,670</b>	<b>135,131</b>	<b>18,193</b>	<b>391,331</b>	<b>6,910,404</b>
<b>Core Department 2005</b>	5,996,948	2,393	96,952	22,436	18,066	295,428	6,432,223
<b>Agencies 2005</b>	21,831	3,874	2,848	81,672	1,632	28,212	140,069
<b>Total</b>	<b>6,018,779</b>	<b>6,267</b>	<b>99,800</b>	<b>104,108</b>	<b>19,698</b>	<b>323,640</b>	<b>6,572,292</b>

Land and Buildings, excluding dwellings, comprises freehold, long leasehold (leases with 50+ years to run from balance sheet date) and short leasehold buildings.

The depreciation charge for on-balance sheet PFI assets in 2005-06 was £8,762,000 (2004-05 £7,212,000).

The Consolidated accounts for 2004-05 did not have a breakdown between Plant and Equipment and Furniture and Fittings.

**Revaluations**

A capital valuation was undertaken on a number of freehold and leasehold properties within the core Department estate. The valuations were undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual and were on the basis of existing use value to the Department. The valuation date was the 31st March 2006, and was undertaken by the chartered surveyors Donaldsons.

The result of the valuation was an overall downward revaluation of £14.2m which has been expensed as impairment to the Operating Cost Statement.

Details of valuations conducted by Home Office agencies are disclosed in their respective accounts.

Other tangible assets were revalued on the basis of the latest available indices.

\*The core opening balances have been restated see note 1.24.

**15. Intangible fixed assets**

	<b>Total</b>
	<u>£000</u>
<b>Cost or valuation</b>	
At 1 April 2005*	10,700
Additions	953
Transfers	–
Donations	–
Disposals	(329)
Revaluations	(553)
Found Assets	–
<b>At 31 March 2006</b>	<b><u>10,771</u></b>
<b>Amortisation</b>	
At 1 April 2005*	(4,582)
Charged in year	(2,441)
Disposals	164
Revaluations	251
<b>At 31 March 2006</b>	<b><u>(6,608)</u></b>
<b>Net book value at 31 March 2006</b>	<b><u>4,163</u></b>
<b>Analysis of intangible fixed assets</b>	
<b>The net book value of intangible fixed assets comprises:</b>	
<b>Core Department 2006</b>	3,984
<b>Agencies 2006</b>	179
<b>Total</b>	<b><u>4,163</u></b>
<b>Core Department 2005</b>	5,681
<b>Agencies 2005</b>	437
<b>Total</b>	<b><u>6,118</u></b>

\* The core opening balances have been restated see note 1.24.

## 16. Investments

	Forensic Science Service (Trading Fund)		Forensic Science Service (GovCo)		Other Investments	Total
	PDC	Voted Loans	Share Capital	Loan Stock		
	£000	£000	£000	£000		
Cost or valuation						
At 1 April 2005	17,971	16,838	-	-	472	35,281
Additions	-	-	48,000	12,000	-	60,000
Disposals	(17,971)	(16,838)	-	-	-	(34,809)
Revaluations	-	-	-	-	(133)	(133)
<b>At 31 March 2006</b>	<b>-</b>	<b>-</b>	<b>48,000</b>	<b>12,000</b>	<b>339</b>	<b>60,339</b>

Other investments comprise a number of quoted and unquoted investments held by the Prison Service. These were acquired as a result of trading activities at no cost on break up of the Milk Marketing Board. The quoted investments are stated at market value at 31 March 2006. The unquoted investments relate mainly to the value of milk quota and are valued at estimated realisable value at 31 March 2006.

	Milk Marque Share Capital	Loan Stock 2027 Share Capital	Genus Share Capital	Value of Milk Quota	Dairy Crest Share Capital	National Milk Records PLC Share Capital	Total other investments
	£000	£000	£000	£000	£000	£000	£000
	<b>Cost or valuation</b>						
At 1 April 2005	20	2	1	269	180	-	472
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Revaluations	-	-	-	(138)	5	-	(133)
<b>At 31 March 2006</b>	<b>20</b>	<b>2</b>	<b>1</b>	<b>131</b>	<b>185</b>	<b>-</b>	<b>339</b>

The department's share of the net assets and results of the above bodies is summarised below. However due to the immaterial nature of some investments held by the Prison Service (Milk Marque, Loan Stock 2027, Genus, Milk Quota and National Milk Records) these have not been reported on. The department's share of the net assets and results of the Forensic Science Service are disclosed as at 4 December 2005 when they prepared their final set of accounts prior to their conversion in to a GovCo. FSS are due to prepare their next accounts at 31 March 2007.

	4 Dec 2005 Forensic Science Service £000	31 Mar 2006 Dairy Crest £000
Net assets	52,075	80
Turnover	109,211	420
Surplus/profit for the year (before financing)	4,368	11

\*The core opening balances have been restated see note 1.23.

The investment additions during the year were a result of the cessation of the Forensic Science Service Trading Fund and the creation of the GovCo under the terms of the business sale agreement in place. The investment additions represent the consideration for the net assets of the trading fund and loan stock redeemed as shown in investment disposals above.

## 17. Stocks and work in progress

	2005-06		2004-05	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Stocks	104	38,695	72	40,091
Work in Progress	-	2,922	-	2,920
	<b>104</b>	<b>41,617</b>	<b>72</b>	<b>43,011</b>

## 18. Debtors

## 18(a) Analysis by type

	2005-06		2004-05	
	Core Department	As Restated Consolidated	Core Department	As Restated Consolidated
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
VAT debtors net of Creditors	47,272	51,430	21,711	43,505
Other Taxation & social security	-	-	-	582
Trade debtors and provision for bad and doubtful debts	51,152	78,794	11,068	31,213
Staff Debtors	4,970	7,193	21	13,590
Debtors – Government Departments	23,755	54,364	256	16,675
Other debtors, prepayments & accrued income	107,930	126,734	70,301	111,343*
Amounts due from the Consolidated Fund in respect of supply	299,539	299,539	109,035	109,035
	<b>534,618</b>	<b>618,054</b>	<b>212,392</b>	<b>325,943</b>

\*Comparative restated see notes 1.23 to 1.25.

	2005-06		2004-05	
	Core Department	As Restated Consolidated	Core Department	As Restated Consolidated
	£000	£000	£000	£000
<b>Amounts falling due after more than one year:</b>				
Trade debtors	-	-	-	-*
Staff Debtors	-	4,908	-	5,790*
	-	<b>4,908</b>	-	<b>5,790</b>

Included within trade debtors is £1.5m (2004-05: £NIL) that will be due to the Consolidated Fund once the debts are collected.

\*Comparative restated sees notes 1.23 to 1.25.

**18(b) Intra-Government Balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	As Restated 2004-05	2005-06	As Restated 2004-05
	£000	£000	£000	£000
Balances with other central government bodies	142,641	233,798	-	88
Balances with local authorities	15,053	6,703	-	-
Balances with NHS Trusts	10,518	3,454	-	-
Balances with public corporations and trading funds	2,978	1,775	-	-
<i>Subtotal: intra-government balances</i>	171,190	245,730	-	88
Balances with bodies external to government	446,864	80,213	4,908	5,702
<b>Total Debtors at 31 March</b>	<b>618,054</b>	<b>325,943</b>	<b>4,908</b>	<b>5,790</b>

**19. Cash at bank and in hand**

	2005-06		2004-05	
	Core Department	Consolidated	As Restated Core Department	As Restated Consolidated
	£000	£000	£000	£000
Balance at 1 April	91,111	113,005	97,773	97,824
Net change in cash balances	(188,112)	(144,049)	(6,662)	15,181
<b>Balance at 31 March</b>	<b>(97,001)</b>	<b>(31,044)</b>	<b>91,111</b>	<b>113,005*</b>
<b>The following balances at 31 March were held at:</b>				
Office of HM Paymaster General	(246,068)	(216,102)	33,352	12,782
Commercial: banks and cash in hand	19,126	55,117	(6,403)	36,061
Cooperative Bank and Charity Bank balances *1	114,941	114,941	64,162	64,162
Third Party Monies *2	15,000	15,000	-	-
<b>Balance at 31 March</b>	<b>(97,001)</b>	<b>(31,044)</b>	<b>91,111</b>	<b>113,005</b>

\*1 The comparative figures have been restated to disclose the Cooperative Bank and Charity Bank balances separately within cash which is Futurebuilders. In the 2004-05 accounts there was no separate disclosure of Futurebuilders it was disclosed within debtors. Please see note 1.24.

The Futurebuilders is an investment fund to assist front line voluntary and community organisations to build their capacity to increase the scale and scope of their public service delivery. For more information, visit the Futurebuilders website: <http://www.futurebuilders-england.org.uk/>. These funds are ring-fenced by HM Treasury; the Home Office is unable to use this money for departmental purposes.

\*2 Third Party monies represents a sum of £15m held in an Escrow account and relates to the FRS17 liability on the FSS pension scheme arising on the transfer of FSS staff from the PSCPS pension scheme to the FSS Ltd pension scheme, which is broadly comparable to the PCSPS. The Home Office is entitled to the remainder of the funds once the liability has been settled.

\*Comparative restated see notes 1.23 to 1.25.



## 20. Creditors

## 20(a) Analysis by type

	2005-06		2004-05	
	Core Department	Consolidated	As Restated Core Department	As Restated Consolidated
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
Other taxation and social security	(28,725)	(38,384)	(73)	(57,175)
Trade Creditors	(182,917)	(284,358)	(255,303)	(406,122)
Other creditors	(139,324)	(137,483)	(191,661)	(66,253)*
Staff Creditors	(22,986)	(28,204)	-	(6,574)
Accruals and deferred income	(672,729)	(770,529)	(421,653)	(486,590)
Unpaid Pension Contributions	(203)	(4,625)	-	(2,643)
Creditors – Government Departments	(48,930)	(37,377)	(22,310)	(19,748)
PFI Contracts – Core Home Office	(13,368)	(13,368)	-	-
Consolidated Fund extra – received	(78,414)	(238,684)	(80,004)	(80,004)*
– receivable	(1,468)	(1,468)	-	-
	<b>(1,189,064)</b>	<b>(1,554,480)</b>	<b>(971,004)</b>	<b>(1,125,109)</b>
	2005 -06		2004-05	
Core Department	Consolidated	Core Department	Consolidated	
£000	£000	£000	£000	£000
<b>Amounts falling due after more than one year:</b>				
Other Creditors	-	(17,483)	-	(3,227)
Long Term Pension Liability	-	(256,607)	-	(297,507)*
PFI Contracts – Core Home Office	(349,887)	(349,887)	(363,255)	(378,713)*
	<b>(349,887)</b>	<b>(623,977)</b>	<b>(363,255)</b>	<b>(679,447)</b>

\* Comparative restated see notes 1.23 and 1.24

## 20(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	£000	£000	£000	£000
Balances with other central government bodies	(227,426)	(199,481)	-	-
Balances with local authorities	(50,246)	(4,939)	-	-
Balances with NHS Trusts	(1,459)	(616)	-	-
Balances with public corporations and trading funds	(1,587)	-	-	-
<i>Subtotal: intra-government balances</i>	(280,718)	(205,036)	-	-
<b>Balances with bodies external to government</b>	<b>(1,273,762)</b>	<b>(920,073)</b>	<b>(623,977)</b>	<b>(679,447)</b>
<b>Total Creditors at 31 March</b>	<b>(1,554,480)</b>	<b>(1,125,109)</b>	<b>(623,977)</b>	<b>(679,447)</b>

The 2004-05 figures are unaudited and were disclaimed. Whilst we are content that the 2005-06 figures are materially correct, it is not possible for readers of these accounts to compare individual line items in the above note as part of a comprehensive analytical review.

**21. Provisions for liabilities and charges**

	Core Department			Consolidated		
	Early departure costs	Other	Total	Early departure costs	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	(17,137)	(41,506)	(58,643)	(58,587)	(115,694)	(174,281)*
Provided in the year	(22,369)	(48,577)	(70,946)	(26,872)	(66,520)	(93,392)*
Provisions not required written back	–	4,795	4,795	29	19,801	19,830*
Provisions utilised in the year	9,055	27,298	36,353	14,322	39,038	53,360*
Unwinding of Discount rate	–	–	–	(3,681)	29	(3,651)*
<b>Balance at 31 March 2006</b>	<b>(30,451)</b>	<b>(57,990)</b>	<b>(88,441)</b>	<b>(74,789)</b>	<b>(123,346)</b>	<b>(198,134)</b>

**Early Departure Costs**

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme become binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

**Other Provisions**

The main component of the "other provisions" relates to outstanding compensation claims, primarily for wrongful convictions and legal claims. Provision has been made for various legal claims against the department. The provision reflects all known claims where legal advice indicates that it is more than 50 per cent probable that the claim will be successful and the amount of the claim can be reliably estimated. The amount provided is on a percentage expected probability basis. Expenditure is likely to be incurred over a period of 5 years. The provision is based on the estimated cash flows discounted the Treasury discount rate of 2.2 per cent in real terms. No reimbursement will be received in respect of any of these claims. Legal Claims, which may succeed but are less likely to do so or cannot be estimated, are disclosed as contingent liabilities in note 31.

A provision for dilapidations is included within the 'Other Provision' balance. The amount involved is insignificant to require separate disclosure.

\*Comparative restated see note 1.23.

**22. General Fund**

The General Fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

	2005 -06		2004-05	
	<b>Core Department</b>	<b>Consolidated</b>	<b>Core Department</b>	<b>Consolidated</b>
	£000	£000	£000	£000
Balance at 1 April as restated*	3,806,264	3,838,109	3,455,120	3,914,411
<b>Net Parliamentary Funding</b>				
Drawn Down	11,072,130	12,905,310	10,602,295	12,200,336
CRB Funding from other government departments	–	–	–	7,090
Adjustment to opening CFER balance	2,077	2,077	–	(35,871)
<b>Net Financing from the Contingencies Fund</b>				
Year end adjustment				
Supply (Creditor)/Debtor – current year	299,539	299,539	109,035	109,035
<b>Net Transfer from Operating Activities</b>				
Net Operating Cost	(11,408,559)	(13,132,975)	(10,290,194)	(12,317,194)
CFERS repayable to Consolidated Fund	(150,767)	(352,531)	(148,177)	(245,335)
<b>Non Cash Charges</b>				
Cost of Capital	196,383	190,880	76,214	169,462
Auditors' remuneration	557	1,182	137	904
Notional Charges and Income	1,866	(3,169)	1,834	4,268
Transfer from Revaluation Reserve	7,664	7,768	–	40,610
Found Assets	–	34	–	167
Actuarial Gains and Losses	–	26,788	–	74,375
Additional Items	–	–	–	(84,149)
UKPS Grant Reserve Movement	–	(179)	–	–
Transfer from CRB to Core	13,000	–	–	–
<b>Balance at 31 March</b>	<b>3,840,154</b>	<b>3,782,833</b>	<b>3,806,264</b>	<b>3,838,109</b>

\* Comparative restated see notes 1.23 and 1.24.

**23. Reserves****23(a) Revaluation Reserve**

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2005-06 £000		2004-05 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April*	1,577,122	1,581,989	1,707,286	1,707,287
Arising on revaluation during the year (net)	169,758	172,261	127,211	(84,688)
Transferred to general fund in respect of realised element of revaluation reserve	(7,664)	(7,768)	(1,584,206)	(40,610)
Transfer from HM Prison Service in respect of NOMS assets	-	-	1,326,831	-
<b>Balance at 31 March</b>	<b>1,739,216</b>	<b>1,746,482</b>	<b>1,577,122</b>	<b>1,581,989</b>

\* Comparative restated see note 1.23.

**23(b) Donated Asset Reserve**

The donated asset reserve reflects the net book value of assets donated to the department

	2005-06 £000		2004-05 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	-	12	15	15
Additions during the year	-	33	(15)	(3)
Release to the Operating Cost statement	-	(3)	-	-
<b>Balance at 31 March</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>12</b>

**23(c) Government Grant Reserve**

	2005-06 £000		2004-05 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	-	-	-	23,087
Grants released	-	-	-	(23,087)
<b>Balance at 31 March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**23(d) Pension Reserve**

The pension reserve represents the shortfall in the NPS Pension scheme at the year end.

	2005-06 £000		2004-05 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	-	(297,507)	-	(297,507)
Movement in Year	-	-	-	-
<b>Balance at 31 March</b>	<b>-</b>	<b>(297,507)</b>	<b>-</b>	<b>(297,507)</b>

## 24. Notes to the Consolidated Cash Flow Statement

### 24(a) Reconciliation of operating cost to operating cash flows

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net operating cost	13	13,132,975	12,317,194
Adjustments for non-cash transactions		(498,152)	(456,333)
Increase/(Decrease) in Stock		(1,394)	(4,154)
Increase/(Decrease) in Debtors		291,229	21,908
less movements in debtors relating to items not passing through the OCS		(190,504)	31,102
(Increase)/Decrease in Creditors		(373,901)	(316,844)
less movements in creditors relating to items not passing through the OCS		95,095	175,755
Use of Provisions	21	53,360	20,824
Adjustments for NPS Pension Funding		14,113	(10,987)
<b>Net cash outflow from operating activities</b>		<b><u>12,522,821</u></b>	<b><u>11,778,465</u></b>

### 24(b) Analysis of capital expenditure and financial investment

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Tangible fixed asset additions	14	(471,354)	(369,583)
Intangible fixed asset additions	15	(953)	-
Proceeds of disposal of fixed assets		51,124	7,870
Less Donated assets		67	-
Investment Additions		-	(336)
Investment disposals		-	1,741
<b>Net cash outflow from investing activities</b>		<b><u>(421,116)</u></b>	<b><u>(360,308)</u></b>

### 24(c) Analysis of capital expenditure and financial investment by request for Resources

	<u>Capital expenditure</u>	<u>Loans etc</u>	<u>A in A</u>	<u>Net Total</u>
	£000	£000	£000	£000
Request for Resources 1	532,307	-	(111,124)	421,183
<b>Total 2005-06</b>	<b><u>532,307</u></b>	<b><u>-</u></b>	<b><u>(111,124)</u></b>	<b><u>421,183</u></b>
<b>Total 2004-05 (unaudited)</b>	<b><u>501,993</u></b>	<b><u>-</u></b>	<b><u>(7,870)</u></b>	<b><u>494,123</u></b>

### 24(d) Analysis of financing

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
From the Consolidated Fund (supply)- current year	22	12,905,310	12,200,336
From the Consolidated Fund (supply)- prior year		109,035	101,525
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		(15,458)	-
<b>Net financing</b>		<b><u>12,998,887</u></b>	<b><u>12,301,861</u></b>

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

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Net Cash Requirement	(13,204,848)	(12,309,371)
From the Consolidated fund (Supply) - current year	24(d) 12,905,310	12,200,336
From the Consolidated fund (Supply) - prior year	24(d) 109,035	101,525
Amounts due to the Consolidated Fund - received in a prior year and paid over	(86,618)	(58,305)
Amounts due to the Consolidated Fund received and not paid over	238,684	86,618
Movement in NPS Cash Balance	(3,967)	-
Payment due to the Consolidated Fund*	(101,645)	(69,791)
<b>Increase/(decrease) in cash</b>	<b><u>(144,049)</u></b>	<b><u>(48,988)</u></b>

\* Explanation to be found at the foot of note 4.

**25. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives**

Administration costs have been attributed to objectives in accordance with the department's normal management account practices, wherever possible, or have been allocated in the same proportions as programme expenditure.

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

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Objective 1	6,726,292	6,335,699
Objective 2	4,126,570	1,165,360
Objective 3	175,834	200,378
Objective 4	1,366,037	968,665
Objective 5	200,952	171,126
<b>Total</b>	<b><u>12,595,685</u></b>	<b><u>8,841,228</u></b>

The Home Office capital is employed for offender management, immigration and border control, criminal justice and crime reduction/detection.

**Capital Employed by Departmental Aim and Objectives at 31 March 2006**

	<u>2005-06</u>	<u>2004-05</u>
	£000	As restated £000
Objective 1	255,036	252,122
Objective 2	4,772,336	4,717,805
Objective 3	19	19
Objective 4	89,518	88,495
Objective 5	114,941	64,162
<b>Total</b>	<b><u>5,231,850</u></b>	<b><u>5,122,603</u></b>

Objective 1 : People are and feel more secure in their homes and daily lives.

Objective 2 : More offenders are caught, punished and stop offending and victims are better supported.

Objective 3 : Fewer people's lives are ruined by drugs and alcohol.

Objective 4 : Migration is managed to benefit the UK, while preventing abuse of the immigration laws and of the asylum system.

Objective 5 : Citizens, communities and the voluntary sector are more engaged in tackling social problems and there is more equality of opportunity and respect for people of all races and religions.

**26. Capital Commitments**

	<b>Core</b>	<b>2005-06 Consolidated</b>	<b>Core</b>	<b>2004-05 Consolidated</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Contracted capital commitments for which no provision has been made	198,259	250,772	100,461	258,461
Approved but not contracted capital commitments	352,618	370,555	-	453,034
	<u>550,877</u>	<u>621,327</u>	<u>100,461</u>	<u>711,495</u>

**27 Commitments under leases****27.1 Operating 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.

**Obligations under operating leases comprise:**

	<b>Core</b>	<b>2005-06 Consolidated</b>	<b>Core</b>	<b>2004-05 Consolidated</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Land and buildings:</b>				
Expiry within 1 year	890	1,893	12,702	13,172
Expiry after 1 year but not more than 5 years	4,411	6,011	5,999	7,770
Expiry thereafter	96,732	103,578	61,052	67,110
	<u>102,033</u>	<u>111,482</u>	<u>79,753</u>	<u>88,052</u>
<b>Other:</b>				
Expiry within 1 year	1,041	2,773	1,019	1,922
Expiry after 1 year but not more than 5 years	71,379	74,429	3,090	4,184
Expiry thereafter	-	658	107	970
	<u>72,420</u>	<u>77,860</u>	<u>4,216</u>	<u>7,076</u>
	<b><u>174,453</u></b>	<b><u>189,342</u></b>	<b><u>83,969</u></b>	<b><u>95,128</u></b>

**27.2 Non-cancellable contracts:**

At 31 March 2006, the Prison Service was committed to making the following payments during the next year in respect of contracts expiring:

	<b>Core</b>	<b>2005-06 Consolidated</b>	<b>Core</b>	<b>2004-05 Consolidated</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Rentals due within 1 year	-	64,149	-	55,914
Rentals between 2 - 5 years	-	29,325	-	57,496
Rentals over 5 years	-	18,865	-	173,219
	<u>-</u>	<u>112,339</u>	<u>-</u>	<u>286,629</u>

## 28. Commitments under PFI contracts

### 28.1 Off-balance sheet

#### Home Office Central London Accommodation

On 26 March 2002, a 29 year public private partnership contract was signed for the construction and maintenance of a new central London Headquarters building at 2 Marsham Street. The new building houses the majority of staff in the Home Office based in Central London. The new property is built and run by Anne's Gate Property (AGP) consortium and is not an asset of the Home Office. Construction was completed by quarter one of 2005 and the building is now fully operational. The contract has an estimated capital value of £200 million, and runs for 30 years from the 26 March 2002. The Home Office is committed to making annual payments of £33 million over the term of the contract.

#### Home Office IT Systems

Core Home Office modernisation programme commenced in February 2001 when the contractor, SIRIUS, a specially constructed consortium of ICL, PWC and Global Crossing assumed responsibility for operating and maintaining the Home Office's IT and telephony. Over the 10 year life span of the programme, the contractor will develop the Home Office's e-mail, Intranet, Extranet and telephone voice services and supporting 4,800 desktops. The contract is treated as Off Balance Sheet with the separation of payment streams to the contractor for IT and telephony charged to the Operating Cost Statement. The Quantum IT facility for Prison Service has an estimated capital value of £51 million and runs for a 10 year term from 29 February 2000. The IT 2000 Home Office e-Business and IT project, started on 10 October 2000 for a duration of 10 years and had an estimated contract value of £25 million.

#### UK Passport Data Capture and Supply Systems

2005-06 was the eighth year of the ten year contracts awarded under the Public/Private Partnerships Initiative to Siemens Business Services and SP&S Ltd. The total award value of the two contracts over the full ten years is estimated at £433 million.

### 28.2 On-balance sheet

#### Home Office (Correctional Services) Contracts

Under FRS5 the assets are treated as an asset of the Home Office and in accordance with Technical Note No1 (revised), entitled "How to account for PFI Transactions" as required by the FReM, the buildings are treated as assets of the Home Office.

These contracts commenced between 1998-1999 to 2004-05 and are for twenty five years. At the end of the contract the buildings will be returned to the Home Office at no cost.

The capital value of the buildings associated with these contracts was estimated on construction to be £424.9m (£424.9m in 2004-05) and the net book value included in the accounts at 31 March 2006, after indexation and depreciation is £482.4m (£485.2m in 2004-05). The depreciation charge for the year on these properties amounted to £8.4m (£7.2m in 2004-05). The freehold land for these prisons is owned by the Home Office and leased to the contractors for a peppercorn rent.



## 28.3 Other PFI Contracts

### Details of other the PFI contracts

Under FRS5 the assets below are treated as assets of the Home Office and in accordance with Technical Note No1 (revised), entitled "How to account for PFI Transactions" as required by the FReM, the buildings are treated as assets of the Home Office.

The following contracts are in operation:

An 850 place new prison at HMP Altcourse with a term of 30 years from 20 December 1995. The estimated capital value of the contract is £88 million.

Design, build, finance and operate 800 place category B prison near Bridgend, South Wales, with a term of 30 years from 31 December 1995. The estimated capital value of the contract is £74 million.

Design, build, finance and operation 500 place category B prison at HMP Lowdham Grange, with a term of 30 years from 8 November 1996. The estimated capital value of the contract is £32 million.

400 place young offenders and juveniles' prison at Pucklechurch, near Bristol, with a term of 30 years from 29 June 1998. The estimated capital value of the contract is £30.7 million.

Design, build, finance and operate 800 place category B prison HMP Forest Bank, on site of former Agecroft power station, with a term of 30 years from 2 July 1998. The estimated capital value of the contract is £38.6 million.

Design, build, finance and operation 600 place category B prison HMP Rye Hill at Onley, near Rugby with a term of 30 years from 22 July 1999. The estimated capital value of the contract is £34.7 million.

Design, build, finance and operation 800 place prison and therapeutic community facility at HMP Dovegate Marchington, Staffordshire, with a term of 30 years from 24 September 1999. The estimated value of the contract is £48 million.

Design, build, financing and operation new custodial services at Ashford in Middlesex, with a term of 30 years from 20 December 2002. The estimated capital value of the contract is £47.1 million.

Design, build, financing and operation new custodial services at Peterborough in Cambridgeshire, with a term of 30 years from 14 February 2003. The estimated capital value of the contract is £64.4 million.

Prison Service – Heat/Energy tranche 1, with a term of 15 years from 4 November 1998. The estimated capital value of the contract is £9 million.

Prison Service – Heat/Energy tranche 2, with a term of 15 years from 1 August 2001. The estimated capital value of the contract is £16 million.

Criminal Records Bureau PPP Contract - value and length of contract

2005/06 was the fourth year of the ten year contract awarded under the PPP initiative to provide the disclosure processing service. The contract (from March 2002 to March 2012) has an estimated total value of £400m, with the actual final value determined by demand for disclosure notices.

## 28.4 Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £362,249 and the payments to which the department is committed during 2005-06, analysed by the period during which the commitment expires, is as follows.

	2005-06 Core Department £000	2005-06 Consolidated £000
<b>Imputed finance lease obligations under on-balance sheet for above PFI contracts comprises:</b>		
Rentals due within 1 year	13,368	13,368
Rentals due within 2-5 years	65,058	65,058
Rentals due thereafter	284,823	284,823
Less interest element	-	-
<b>Total</b>	<b>363,249</b>	<b>363,249</b>

## 29. Other financial commitments

The department and its agencies have entered into the following non-cancellable contracts (which are not leases or PFI contracts):-

The provision of legal services, and security and technical architecture support within the Immigration and Nationality Department.

The Devon and Cornwall probation boards have entered into service level agreements with various partner organisations for periods of three years under the guidance of the Home Office's Partnership Compact which is designed to increase capacity in the non-statutory sector.

UKPS has outsourced suppliers and has financial commitments under these contracts until the end of the contract term. Material contracts with SP&SL expiry October 2008; SBS, expiry October 2008; SMS, expiry February 2007; MMT, expiry October 2006; Equifax, expiry June 2007; and Atos Origin, expiry August 2009. Much of the financial commitment on these contracts is based on volumes of passports produced and is estimated at £267.6m until the expiry of each contract.

The payments to which the department and its agencies are committed during 2005-06, analysed by the period during which the commitment expires are as follows:-

	Core £000	Consolidated £000	2005-06 Core £000	2004-05 Consolidated £000
Expiry within 1 year	567	567	-	-
Expiry within 2 to 5 years	-	655	-	1,066*
Expiry thereafter	-	-	-	-
<b>Total</b>	<b>567</b>	<b>1,222</b>	<b>-</b>	<b>1,066</b>

The payments analysed above exclude the UK Passport Service payment of £267.6 million due to the commercial sensitivity. This is consistent with the disclosure made in the 2005-06 audited UK Passport Service accounts.

\* There was no disclosure made for "Other Financial Commitments" in the 2004-05 departmental resource accounts. The National Probation Service (NPS) made a disclosure for "Other Financial Commitments" in their 2004-05 accounts but this was omitted from the Department's accounts. The 2004-05 comparatives have therefore been restated.

## 30. Financial Instruments

### 30.1 Risk management objectives and policies

Financial Reporting Standard 13: Derivatives and Other Financial Instruments requires disclosure of the objectives and policies of an entity in holding financial instruments, and the role financial instruments have had during the period in creating or changing the risks the entity faces in undertaking its activities. As permitted by FRS 13, debtors and creditors, which mature or become payable within 12 months from the balance sheet date have been omitted from these disclosures.

Because of the largely non-trading nature of its activities and the way Government Departments are financed, the Department 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 listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow, invest surpluses, or purchase foreign currency. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the Department in undertaking its activities.

### 30.2 Liquidity risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, as largely is its capital expenditure. It is not, therefore, exposed to significant liquidity risks, and the Department has no need to maintain commercial borrowing facilities.

### 30.3 Financial liabilities

The Futurebuilders programme exists to expand the contribution of voluntary and community sector bodies to the delivery of public services through the provision of loan finance and development grants. Spending Review 2002 provided £125 million to the Home Office to fund the programme. By 31 March 2006, the whole fund (except for an amount reserved to undertake an evaluation of the programme) had been transferred into the Futurebuilders Trust Account. The Home Office is the beneficial owner of the Futurebuilders Trust Account held at the Co-operative Bank plc. The balance in this account at 31 March 2006 was £114,941,413, of which £18,857,484 was held in a current account and the remainder as a current investment for periods of one month in a Co-op Treasury deposit account. The entire balance is recognised in Note 19 as cash at bank. The balance at 31 March 2005 of £64.1m was accounted for within debtors.

Funds in the Trust Account are ring-fenced and exist solely for the purposes of funding the Futurebuilders programme which is operated currently for the Home Office by Futurebuilders England Limited. Charity Bank is currently the Accountable Body for the Futurebuilders programme and exercises a stewardship role over the Trust Account.

Expenditure against the programme (recorded on Estimates subhead H) is recognised at the point that is drawn down from the Trust Account by Futurebuilders England in the case of running costs and grants and at the point that a binding investment decision is made by Futurebuilders England in the case of loans granted to the voluntary and community sector. An element of the Trust Account balance (£29.3m) has been committed by Futurebuilders England to binding investments and is recognised by them as income in their own accounts. Accordingly these accounts recognise a creditor for this element which will be drawn down by Futurebuilders England as required to fund investments. Once the Fund has been drawn down in its entirety by Futurebuilders England, capital and interest payments on loans will be recognised as debtors due to Futurebuilders England. Debts only become due to the Department in the event of breach of the Futurebuilders Agreement or withdrawal of the current contractor where no alternative contractor can be found resulting in the effective termination of the programme.

Both the current account and deposit account are interest-bearing with interest accumulating for the benefit of the Futurebuilders Fund (£3.9m in 2005-06). In resource budget terms, Treasury has agreed that interest can be used to offset the cost of capital charge associated with commercial bank accounts. Interest is not treated as income to the Home Office in these accounts but rather as a creditor due to Futurebuilders England.

Following the transfer of functions undertaken by the Communities Group to other departments from 5 May 2006, the Cabinet Office is now responsible for the Futurebuilders programme and is the owner of the Trust Account.

### Financial Liabilities

	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Non interest bearing financial liability	Fixed rate financial liabilities	Fixed rate financial liabilities	Non interest bearing financial liabilities
	£000	£000	£000	£000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
<b>At 31 March 2006</b>							
Sterling	363,255	–	363,255	–	8	25	1
<b>Gross Financial Liabilities</b>	<b>363,255</b>	<b>–</b>	<b>363,255</b>	<b>–</b>	<b>8</b>	<b>25</b>	<b>1</b>
<b>At 31 March 2005</b>							
Sterling	569,467	–	392,031	177,436	8	25	1
<b>Gross Financial Liabilities</b>	<b>569,467</b>	<b>–</b>	<b>392,031</b>	<b>177,436</b>	<b>8</b>	<b>25</b>	<b>1</b>
<b>At 31 March 2004</b>							
Sterling	538,264	–	291,958	246,306	8	25	1
<b>Gross Financial Liabilities</b>	<b>538,264</b>	<b>–</b>	<b>291,958</b>	<b>246,306</b>	<b>8</b>	<b>25</b>	<b>1</b>

### Financial Assets

	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Non interest bearing financial liability	Fixed rate financial assets	Fixed rate financial assets	Non interest bearing financial assets
	£000	£000	£000	£000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
<b>As at 31 March 2006</b>							
Sterling	60,000	–	12,000	48,000	8	25	1
<b>Gross Financial Assets</b>	<b>60,000</b>	<b>–</b>	<b>12,000</b>	<b>48,000</b>	<b>8</b>	<b>25</b>	<b>1</b>
<b>At 31 March 2005</b>							
Sterling	83,643	–	16,838	66,805	8	25	1
<b>Gross Financial Assets</b>	<b>83,643</b>	<b>–</b>	<b>16,838</b>	<b>66,805</b>	<b>8</b>	<b>25</b>	<b>1</b>
<b>At 31 March 2004</b>							
Sterling	134,375	–	18,580	115,795	8	25	1
<b>Gross Financial Assets</b>	<b>134,375</b>	<b>–</b>	<b>18,580</b>	<b>115,795</b>	<b>8</b>	<b>25</b>	<b>1</b>

## 31. Contingent Liabilities disclosed under FRS 12

### 31.1 The Home Office has contingent liabilities in respect of the following matters:

Legal claim against the Department £80,000 (FSPU, National DNA Database Delivery Team) for compensation costs resulting from release of duplicate barcodes by Home Office staff.

A contingent liability of £18.4 million has been made for costs relating to various legal claims against the Department. The contingent liability reflects all known claims where legal advice indicates that it may succeed but less likely to do so or cannot be estimated reliably.

Wrongful convictions: The Home Office is liable for settling claims arising from wrongful convictions. The amount quantifiable have been provided for in full. However 26 cases have been received but not yet assessed at the balance sheet date and it therefore impossible to quantify any associated liability.

On the personal injury side there are a number of cases against the Department with potential damages claimed between £500k and £1 million.

Claims for injury to staff, prisoners and the public amounting to £11.4 million (£7.3 million in 2004-05) have been indicated, where the likelihood of a liability arising is possible but not likely. Other claims for compensation where it is more likely than not a liability will arise have been provided for in note 21.

The UK Passport Agency's ten-year Public/Private Partnerships (PPP) agreements with SBS, SP&SL and MMT are due for expiry in two years. These contracts contain every expiry and other clauses which if exercised would result in financial liabilities being incurred. UKPS believes that the likelihood of these crystallising is remote, but as a possibility remains, are disclosed here for completeness.

At 31 March 2006, the CRB had received claims for compensation the amount of which cannot be readily estimated. These claims are being contested and, in management's opinion, will not lead to a liability:-

At the balance sheet date, 9 Probation Boards had material contingent liabilities. They are Avon and Somerset, Cheshire, Devon and Cornwall, Dorset, Lancashire, Northamptonshire, Nottinghamshire, Sussex, and West Midlands.

Avon and Somerset: Claims for two possible industrial tribunals have been indicated to the Board.

Devon and Cornwall: The Board has been made aware that Cornwall County Council is considering its position with regard to making a claim in respect of a deficit in its pension fund which may relate to pensioners of the old Cornwall Probation Board in the amount of £625,000.

\* Cheshire: Two claims were indicated by the Probation Board. No provision has been made in the accounts in respect of these claims. Both of the claims have been referred to the Board's insurers, and the maximum liability per claim is £5,000 should liability be established.

Dorset: Claims for injury to staff and offenders amounting to £6,000 have been indicated to the Probation Board.

Lancashire: A small number of part-time pension employment cases have been made against the Board. Proceedings in these cases have been slow to develop and are not yet at advanced stage, so any potential liability cannot be quantified.

Northamptonshire: There is a contingent liability in respect of an industrial tribunal which took place during the 2005/06 financial year. There will be a settlement awarded to the employee but the amount is uncertain as yet.

Nottinghamshire: A small number of part-time staff have submitted claims to an Employment Tribunal for back-dated rights to join the pension scheme. There is a potential liability if eligible staff choose to exercise their rights to join the scheme, and the employer is required to make contributions. The amount depends upon the staff who decide to take up this option. No provision has been made in the accounts.

Sussex: The Board has provided £8,000 for contingent liabilities relating to a current employment tribunal.

\* Claims for injury to staff amounting to £30,000 have been indicated to the Board (reported in 2003-04 accounts). No

provision has been made to cover any liability the case in question has yet to be determined.

\* West Midlands: There are two potential contingent liabilities facing the Board. The first concerns three outstanding insurance claims relating to the period when the former probation committee was insured by the Independent Insurance Company which is now in liquidation. The second concerns two disciplinary and grievance claims which might ultimately result in e employment tribunal cases. The Board is able to put a value on the above matters from the information available at present, but they are not considered to be significant and no specific provisions have been made in the accounts. The 2001-02 grant reconciliation with the National Probation Directorate has still to be resolved.

By the nature of contingent liabilities, there is uncertainty over the potential timing of any outflows arising on crystallisation.

\* Contingent Liabilities omitted in error from the 2004-05 accounts.

### 32. Contingent Liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

#### Quantifiable

The Home Office 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 within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	Unaudited 1 April 2005	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2006	Amount Reported to by Parliament Depart- mental Minute
	£000	£000	£000	£000	£000	£000
The Airwave Contract; potential costs of its failure.	500,000	-	-	-	500,000	500,000
The Home Office Central London Accommodation HOCLAS Project (HOCLAS) for the relocation of Home Office and Prison Service accommodation to Marsham Street London. Minute laid 23 January 2002.	1,750	-	-	-	1,750	1,750
The Security Industry Authority (SIA) registered a contingent liability concerning the effect of Transfer of Undertakings protection of Employment (TUPE) regulations with certain local authority staff who currently licence Door Supervisors for the Security Industry could transfer to the private contractors Working for the SIA. Minute laid 8 May 2003.	3,000	-	-	-	3,000	3,000
An indemnity in respect of any one accident has been given to BAA in respect of damage on injury caused to third parties arising out of the negligence of the Prison Service in their use of vehicles travelling airside for the repatriation of prisoners	50,000	-	-	-	50,000	50,000
The Sirius computer maintenance contract: potential costs if the contract was terminated.	12,000	-	-	-	12,000	12,000
<b>Total</b>	<b>566,750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>566,750</b>	<b>566,750</b>

*Unquantifiable*

The Home Office has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the possibility of a transfer of economic benefit in settlement is too remote.

*Guarantees*

HOCLAS warranty for supply of defective information to the contractor and limited indemnity for excess pension and termination costs.

Police - City of London Economic Crime Basic Command Unit (ECBCU) (Minute laid 12 March 2004). If the Home Office reduces or discontinues its share of the match funding of the expanded ECBCU then it will contribute 50% to any resulting cost.

*Indemnities*

HM Prison Service Crown as insurer of last resort in respect of contracts to design, construct, manage and finance new prisons. Minutes laid 3 July 1995 and 19 March 1997.

IND New Detection Technology (NDT) in Belgium and Ireland (Minute laid 10 September 2003) Contingent Liabilities arising from NDT equipment loaned by the United Kingdom Immigration Service to recipients in Zebrugge and Rosslare.

IND New Detection Technology in Belgium, Holland and Germany (Minute laid 18 September 2003) Contingent Liabilities arising from NDT equipment loaned by the United Kingdom Immigration Service to recipients in Zebrugge, Ostend, Vlissingen and German/Polish frontier.

IND New Detection Technology in France (Minute laid 18 December 2003) Contingent Liabilities arising from NDT equipment loaned by the United Kingdom Immigration Service to recipients in France.

IND New Detection Technology France and Austria (unquantifiable) (minute laid 16 March 2004):-

Coquelles: Shelter for and heartbeat detection equipment which is under control of, and operated by, the United Kingdom Immigration Service in the juxtaposed control zone.

Austria: Austrian Border Guard receives one Passive Millimetric Wave Imager truck (previously in Germany) for an unspecified period.

IND New Detection Technology in Europe (minute laid 2 July 2004). Indemnity (unquantifiable) in respect of the deployment and/or demonstration of New Detection Technology by the United Kingdom Immigration Service in Europe (within the scope of this indemnity "Europe" is defined as: the member states of the Organisation for Security and Co-operation in Europe; those North African and Middle Eastern countries with which OSCE has special relationships (Algeria, Egypt, Israel, Jordan, Morocco & Tunisia); and those countries which participate in Euro-Mediterranean dialogue with the Council of Europe (Libya, Syria, Lebanon and the Palestinian Authority).

Kent Police and Kent Police Authority (minute 10 October 2005). Indemnity (unquantifiable) for Kent Police, and the Kent Police Authority, in respect of any financial liability arising from their giving evidence in respect of Euro-tunnel arbitration claim.

Mubarek Inquiry team (minute 10 March 2006). Indemnity (unquantifiable) in relation to in relation to any legal action taken against the Chairman or members of the Independent Inquiry into the death of Zahid Mubarek at the Feltham Young Offenders Institution.

The National Probation Service has reported the Provision of Indemnity to Members of the forty two Local Area Probation Boards to maintain the same status of indemnity that was provided by the local authorities. The Government has agreed that an individual Probation Board member should be indemnified against legal damages and costs arising from advice given, or action done, honestly and in good faith in the execution or purported execution of his board functions, except where the board member has acted recklessly.

The United Kingdom Passport Agency has contingent liabilities in respect of its ten year Public/Private Partnership Agreements with Siemens Business Services and Secure Printing and Services Limited. The agreements contain termination and expiry clauses, which if activated by the Agency would result in financial liabilities being incurred. The Agency believes that the likelihood of these liabilities materialising is remote, but as a possibility remains, are disclosed here for completeness.

### 33. Losses and special payments

#### 33(a) Losses Statement

	Number of cases	2005-06 £000	Number of cases	2004-05 £000
<b>Details of cases over £250,000</b>				
Cash losses	–	–	1,413	142
Claims abandoned	64	284	31	69
Administrative write-offs	45	6,023	1	11,000
Fruitless payments	–	–	71	40
Bicester write off	1	16,600	1	11,000
Store Losses	3,066	557	3,093	705
<b>33(b) Special Payments</b>				
Compensation Payments	3,680	17,669	7,497	11,400
Ex gratia	126	551	–	–
<b>Total of losses that exceed £250,000 (£100,000 in 2004-05)</b>	<b>6,982</b>	<b>41,684</b>	<b>2,107</b>	<b>34,356</b>

Of the administrative write-offs thirty seven relate to the reimbursement of costs incurred by Police Forces in preparing for force mergers. On 19 October the Home Office agreed to compensate individual forces up to a maximum of £100,000 each. However agreement was reached that in the case of three claims for compensation larger amounts would be paid. These were Cumbria £271,000, Lancashire £725,000 and Lincolnshire £287,600.

A further three administrative write-offs relate to IT assets subject to impairment within the Criminal Justice IT programme. The total value of the impairment was £2,003,330.

As reported in note 14 Tangible Fixed Assets and note 10 there has been a reduction in the value of certain HO freehold properties the total of this downward revaluation is £14,196,000.

On 14th June 2005, it was announced that the Home Office would not be proceeding with the Bicester Asylum Accommodation Project. Of the £33.7m revenue and capital costs incurred on the project, £6.1m will contribute to the construction of new detention centres and has been retained on the balance sheet. The remaining £27.6m has been disclosed in the resource accounts as a constructive loss, of which £11m was disclosed in 2004-05 and £16.6m disclosed in 2005-06.

#### In addition to the above the following is charged to the Operating Cost Statement

Payments made by the National Asylum Support Service include £16,824,000 in respect of "voids". This is a reduction of £51,476,000 compared to 2004-05, reflecting continuing action to reduce the level of voids. Voids are bed spaces not occupied at a particular time for which the Home Office is contractually liable to pay. Retention of these spaces has provided the Immigration and Nationality Directorate with the flexibility to accommodate applicants at short notice at lower cost than it would otherwise have obtained. The implementation of new contract arrangements from April 2006 onwards means that the cost of voids will fall still further in the coming year.



### 33(c) Gifts statement

A gift of two helicopters with spares to the value of £6m to the Pakistan Anti-Narcotics Force (ANF). Details of the transfer were notified to the House of Commons in a Departmental Minute dated 8 March 2006.

A donation of £1m to the GLA/Red Cross Fund for the victims and families of victims of the London bombings. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 18 July 2005.

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### 34. Related-party transactions

The Home Office is the parent Department of the Prison Service Agency, the United Kingdom Passport Service, the Criminal Records Bureau, the National Probation Service, and sponsors the Forensic Science Service. The Forensic Science Service started the year as a trading fund but ended it as a GovCo. These bodies are regarded as related parties, with which the Home Office has had various material transactions during the year.

At the end of each financial year, the Home Office requests that each of its senior managers complete a declaration, stating where they or their spouse have been on a position of influence or control in organisations which the Home Office has transactions. All the declarations were to the effect that no such related parties existed.

Notes 18 and 20 provide details of intra-government balances and sponsored NDPB's and the Forensic Science Service.

**Note:** Details of Related party transactions of the Prison Service Agency, the United Kingdom Passport Service, the Criminal Records Bureau, and the National Probation Service are disclosed in their audited accounts.

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### 35. Third Party assets

There are some immaterial third party assets (£91,000) held by the Probation Service and these have been separately disclosed in the HM Probation Service accounts.

In addition, the Prison Service holds third party monies of £7,875k (£8,169k in 2004-2005). This relates to monies held on behalf of prisoners.

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### 36. Entities within the departmental boundary

The entities within the boundary during 2005-06 were as follows:

#### Entities consolidated

The Home Office departmental accounting boundary encompasses the central Government department, three executive agencies and the National Probation Service. The executive agencies are HM Prison Service, the UK Passport Service and the Criminal Records Bureau. The accounts of all of these entities form part of the Home Office's consolidated financial statements. During 2005-06 both the Prison Service and the National Probation Service produced separate resource accounts which were laid before Parliament.

#### HM Prison Service (HMPS)

HMPS is responsible for providing prison services in England and Wales. It works in pursuit of the Home Office Strategic Objective 2 by ensuring that offenders and those remanded in custody are supervised in such a way as to protect the public and by giving offenders the opportunity to lead law-abiding, productive and healthy lives.

**National Probation Service (NPS)**

The NPS is a key statutory criminal justice service working in a highly collaborative way with police and prison services as well as the Crown Prosecution Service, courts, local authorities, health, education, housing a wide range of independent and voluntary sector partners in support of Strategic Objective 2

**UK Passport Service (UKPS)**

UKPS supports the delivery of the Home Office Strategic Objective 4 and is responsible for providing passport services for British Nationals in the United Kingdom promptly and economically. UKPS's primary objective is to provide the best possible service to its customers while maintaining the integrity of the British passport.

**Criminal Records Bureau (CRB)**

The CRB helps protect children and other vulnerable people through safer recruitment by making information from police records and other data sources more readily available to employers, ensuring greater consistency of vetting in support of Strategic Objective 1.

**Entities not consolidated**

Public bodies for which the Home Office has lead policy responsibility within Government, but which are outside of the consolidation boundary for accounting purposes, are set out below. Non Departmental Public Bodies (NDPBs) are reflected in the Home Office accounts by the inclusion of funds paid to them as grants or expenses. The Forensic Science Service, executive NDPB's and Criminal Injuries Compensation Appeals Panel publish their own annual reports and accounts which can be obtained from The Stationery Office or the relevant body.

**Forensic Science Service (FSS)**

FSS is principally responsible for supplying scientific support for criminal investigations and for providing expert evidence to the courts. The agency started the year as a Trading Fund. The FSS transferred to a Government owned company during 2005-06 prior to development as a private sector classified Public Private Partnership (PPP). The Department has a continuing interest in FSS and as such it is treated as an investment in the Balance Sheet (Schedule 3).

**Non-Departmental Public Bodies (NDPBs):**

**Executive NDPBs:** these carry out a wide variety of administrative, regulatory and commercial functions. They generally operate under statutory provisions, employ their own staff and have responsibility for their own budgets.

- Central Police Training & Development Authority (CENTREX)
- Commission for Racial Equality
- Community Development Foundation
- Criminal Cases Review Commission
- Criminal Injuries Compensation Authority
- Independent Policy Complaints Commission
- Office of the Immigration Services Commissioner
- Parole Board for England and Wales
- Police Information Technology Organisation
- National Criminal Intelligence Service
- National Crime Squad
- Security Industry Authority
- Youth Justice Board for England and Wales

**Advisory NDPBs:** these are generally set up administratively by Ministers to advise them and their departments on matters within their sphere of interest. Some Royal Commissions are classified as advisory NDPBs, but departmental committees of officials are not. Generally, advisory NDPBs are supported by staff from within the sponsor department, and do not incur expenditure on their own account.

- Advisory Board on Restricted Patients
- Advisory Council on the Misuse of Drugs
- Animal Procedures Committee
- Correctional Services Accreditation Panel
- Poisons Board (in abeyance)
- Police Advisory Board for England Wales
- Police Negotiating Board
- Race Equality Advisory Panel
- RIPA Technical Advisory Board
- Sentencing Advisory Panel
- Sentencing Guidelines Council (established March 2004)
- Victims Advisory Panel

**Tribunal NDPBs:** these are bodies with jurisdiction in a specialised field of law. Tribunals generally operate under statutory provisions and, independently of the Executive, decide the rights and obligations of private citizens towards each other or towards a Government department or other public authority. In general, tribunals are serviced by staff from the sponsor department or other public authority. There are two types of tribunal system: standing tribunals, which have a permanent membership; and tribunals that are convened from panels, so that the actual number of tribunals sitting varies. Although their functions are essentially judicial, they are not part of the Courts.

- Criminal Injuries Compensation Appeals Panel
- Investigatory Powers Tribunal
- Office of Surveillance Commissioners
- Police Arbitration Tribunal
- Police Discipline Appeals Tribunal

**Other NDPBs:** Independent Monitoring Boards perform a vital 'watchdog' role on behalf of Ministers and the general public in providing a lay and independent oversight of prisons and immigration removal centres.

- Independent Monitoring Board of Penal Establishments and Immigration Centres (formerly the Board of Visitors to Penal Establishments and Visiting Committee Immigration Detention/Reception Centres)

#### **Other Public Bodies**

- Annual Reviewer of the Terrorism Act 2000
- Annual Reviewer of the Part 4 of the Anti-Terrorism Crime and Security Act 2001
- Annual Reviewer of the Criminal Justice (Conspiracy and Terrorism) Act 1998
- Asylum Support Adjudicators
- Charity Commission
- Criminal Justice Consultative Council
- HM Chief Inspector of Prisons
- HM Chief Inspector of Probation
- HM Inspectorate of Constabulary
- IND Complaints Audit Committee
- Independent Assessor for Miscarriage of Justice Compensation
- Independent Race Monitor
- Intelligence Services Commissioner
- Interception of Communications Commissioner
- Metropolitan Police Authority

Ministerial Advisory Group to Retail Crime Reduction Action Team  
National Probation Service for England and Wales (Local Probation Boards)  
Prisons and Probation Ombudsman  
Property Crime Reduction Action Team  
Retail Crime Reduction Team  
Selection Panels for Independent Members of Police Authorities

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### **37. Post Balance Sheet Events**

Other than already reflected in the financial statements, there are no material post balance sheet events requiring disclosure. Additional information is provided in the Annual Report.

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