

Department of Trade and Industry

Consolidated Resource Accounts 2005-06

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(For the year ended 31 March 2006)

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ANNUAL REPORT

The Annual Report for 2005-06 outlines the Department's aims and objectives, highlights the Department's performance against the public services agreement targets and shows our financial performance. It also covers how the Department is managed and the corporate governance arrangements.

Accordingly the Annual Report is broken down into;

- Scope – What is covered by the annual report.
- The Department's purpose and objectives.
- Performance Review – Department's performance against its aims and objectives.
- Financial Review – Department's financial performance.
- Management of the Department – Basis of managing the Department.
- Corporate Governance.
- Remuneration Report.
- Public Interest and Other.

The Department's annual Departmental Report covers, in more detail, the work of the previous year including progress made against the Department's aims and objectives and plans for forthcoming year and can be found on <http://www.dti.gov.uk/publications/index.html>

SCOPE

The Report and the Accounts presents the consolidated results for the financial year 2005-06 for the Department of Trade and Industry (DTI) and the consolidated entities.

Entities Consolidated

This Report and Accounts presents the consolidated results for the financial year 2005-06 of the following entities:

- The DTI, including DTI elements of administration expenditure for UK Trade & Investment (UKTI), an entity whose administration costs are shared between DTI and the Foreign and Commonwealth Office (FCO), and shown in their respective resource accounts. UKTI's programme expenditure is presented in its own resource accounts for the year;
- Executive Agencies:
 - Employment Tribunals Service.
 - The Insolvency Service.
 - National Weights and Measures Laboratory.
 - Small Business Service.
- The Advisory, Conciliation and Arbitration Service (ACAS), a Crown Executive Non-Departmental Public Body (NDPB).

Further information on the above entities can be found in note 40 of these accounts.

Entities not Consolidated

Public bodies for which the DTI has lead policy responsibility within Government, but which are outside of the accounting boundary as defined by HM Treasury's Financial Reporting Manual (FReM), are set out in note 40 of these accounts. All these bodies publish their own annual reports and accounts, detailing their financial activity during the year. These can be obtained from The Stationery Office or the relevant body.

In addition, certain non-executive NDPBs, advisory bodies and tribunals which do not produce their own resource accounts, are included in these accounts by way of accounting for the funds paid to them as grant or expenses. Details of these bodies are listed in note 40.

THE DEPARTMENT'S PURPOSE AND OBJECTIVES

In 2005 the Department's Statement of Purpose was refined to be:

'Creating the conditions for business success; and helping the UK respond to the challenge of globalisation.'

The Statement of Purpose builds on the Department's Strategy and Five Year Programme; and emphasises, that as the Department responsible for trade, business, employees, consumers, science and energy, the Department is in a unique position to contribute to the wider challenge of globalisation – enabling business and employees to prosper in the UK. Delivering outcomes will require ever closer working with others – reaching out to more stakeholders, and working with Whitehall Departments to raise awareness of the Government role in addressing globalisation.

Achieving the Statement of Purpose requires that the Department continue to focus on its strategic objectives of:

- **Supporting Successful Business** – recognising that business and Government have a shared goal in working together to ensure improved competitiveness, through identifying and tackling market failures and overcoming barriers to growth. And, just as business operates at a global, national, and local level, so must Government.
- **Promoting World Class Science and Innovation** – to support the development of a knowledge economy, Government must both support the science base, and ensure the efficient flow of this knowledge to firms, through strong innovation networks, to ensure that these ideas can be turned into high value products and services.
- **Ensuring Fair Markets** – fair and open markets, at home and abroad, are critical to UK prosperity. The Department has a key role in establishing the UK competition policy framework, and promoting the benefits of market liberalisation in the EU and globally; empowering consumers to make markets work; ensuring that the Department follows the principles of better regulation and ensuring that individuals can contribute in the workplace to their full potential.
- **Secure, Sustainable, Affordable Energy** – ensuring competitive energy markets deliver reliable, sustainable and affordable energy for business and domestic consumers. Within this the Department also remains focused on improving the efficiency and effectiveness with which it discharges its responsibilities and international obligations in respect of nuclear security and safety and export control.

Alongside these objectives, the Department is also required to manage a wide range of Government assets and liabilities.

PERFORMANCE REVIEW

The 2006 Departmental Report (Cm 6826) provides detailed information on the DTI's performance in 2005-06, including progress in delivering the Department's PSA targets.

Updated information on PSA delivery will be published in the Department's Autumn Performance Report to be published towards the end of the year. Copies of the DTI's Departmental and Autumn Performance Reports can be bought from TSO (The Stationery Office) or found on the DTI's website <http://www.dti.gov.uk/about/strategy-objectives/annual-spending/page25111.html>.

Below is set out a summary of PSA delivery, some highlights from the year and reports on selected topics.

Summary of PSA delivery

The 2006 Departmental Report assesses progress in delivering DTI's PSA targets for 2005-08 as follows:

- Six PSA targets are assessed as being on course: PSA 1 Productivity, PSA 2 Science and Innovation; PSA 3 Consumers and Competition; PSA 6 Enterprise; PSA 7 Regional Economic Performance; and PSA 8 Trade and Investment.
- Three PSA targets cannot yet be assessed: PSA 9 Gender Equality; PSA 10 Maximising Potential in the Workplace and PSA 11 Nuclear Decommissioning Authority.
- Two PSA targets are rated as showing slippage: PSA 4 Energy and PSA 5 Trade Barriers.

Key achievements in 2005-06

- DTI helped to run a business-like, impartial European presidency, contributing to the efficient way Councils were chaired and business conducted. We made substantial progress on a number of difficult issues. For example, on better regulation, with the Commission's withdrawal of 68 proposals for legislation, its publication of a simplification programme and substantial progress on economic reform and the opening up of markets. We produced tangible results, including achieving political agreement on the REACH chemicals regulation saving business over €600 million;
- UK Trade and Investment helped nearly 6,000 UK companies move into overseas markets new to them and the UK landed over 1,000 inward investment projects, creating 40,000 new jobs and safeguarding a further 35,000;
- At home DTI produced practical advice and help to over 670,000 businesses through Business Link. The Businesslink.gov website is now attracting over 500,000 unique visitors a month and the proportion of those that are repeat visitors has doubled over the past year;
- DTI launched the Energy Review which will look at what measures are needed to tackle climate change and to ensure secure energy supplies in the UK for 2020 and beyond;
- DTI increased the National Minimum Wage beyond £5 for the first time in October 2005, lifting more than a million people out of poverty. In October 2006 it will rise again from £5.05 to £5.35;
- On better regulation, DTI published its simplification plans to deliver £1 billion of regulatory savings to business over the next five years;
- DTI introduced the Work and Families Bill to give families real choices about how they balance work and family caring responsibilities which will extend maternity and adoption pay and give fathers the right to take up to 26 weeks Additional Paternity Leave;
- DTI helped consumers get better advice and protection by extending the availability of Consumer Direct to all corners of Britain. We are continuing to ensure consumers are protected through the Consumer Credit Bill;
- The Equality Act became law and sets the foundation for the establishment of the Commission for Equality and Human Rights in 2007. And Civil Partnerships came into force in December 2005, extending the legal recognition rights of married people to same-sex couples;
- As part of the commitments under the ten-year Science and Innovation Investment Framework we invested, with our partners, a further £500 million in modernising research infrastructure, £120 million to help secure the long-term financial stability of the UK's research base, and made 400 new academic fellowship awards;
- We provided £90 million to promote knowledge transfer from the public research base to industry and £40 million to support large science capital projects such as the Diamond Synchrotron.

Other*MG Rover*

The MG Rover Group (including MG Rover and Powertrain Limited) had been holding discussions with the Shanghai Automotive Industrial Corporation (SIAC) of China to agree a joint venture that would have secured the long-term future of the Group. The MG Rover Group Limited and Powertrain Limited went into administration on Friday 8 April 2005 before the negotiations could be completed.

The Department made two loans totalling £6.5 million to the Administrators on 13 April 2005. This was to give the administrators time to quickly pursue options for the sale of the company as a going concern and thereby save a significant number of jobs or, if possible, to provide time to resolve the situation of the workforce in an orderly manner. The loans were to be repaid on completion of a going concern sale. £1.3 million of the loans has been repaid, but it is clear that the remainder will not be recovered and has been written-off.

Nuclear Decommissioning Authority

The Nuclear Decommissioning Authority (NDA) is a cross-border non-departmental public body, set up with full functions in April 2005 under the Energy Act 2004 to take strategic responsibility for the UK's nuclear legacy. Its core objective is to ensure that the 20 civil public sector nuclear sites for which it is responsible are decommissioned and cleaned up safely, securely, cost effectively and in ways that protect the environment for this and future generations. The NDA published its first Strategy on 30th March 2006.

Under the Energy Act the NDA is responsible for certain assets and liabilities previously owned by BNFL and has responsibility for designated UKAEA sites. On 1 December 2004, the EC announced that it had initiated an investigation into whether the transfers of liabilities from BNFL to the NDA complied with State Aid Regulations. As a result of the investigation, interim arrangements were put in place to limit the financial responsibility of the NDA for the BNFL liabilities until State Aid approval was obtained. State aid clearance has now been given and the interim arrangements wound up.

Under the 2004 Spending Review the NDA received a budget of £2.2 billion for 2005-06 – about half of which is to be derived from the remaining commercial activities associated with the sites. Over time commercial income will decline as reactors and other commercial sites close. The effect was that in 2005-06 the NDA received income from two main sources:

- Grant in Aid from DTI of £773 million;
- Receipts from commercial activity of £1,333 million.

The NDA has published its Annual Plan for 2006-07 and is in discussion with its contractors on testing efficiency targets. It has begun work on the first competition, for the Drigg repository and is working with BNFL on the sale of BNG, which is expected to be put out to tender by April 2007. A full competition schedule is set out in their Strategy.

As indicated in the NDA's published Strategy, the current estimated lifetime cost of delivering the NDA's mission (decommissioning, clean-up and remaining commercial operations) is £62.7 billion undiscounted (£35.4 billion discounted). An appropriate provision for the estimated liability for nuclear decommissioning is to be reflected in the accounts of the NDA.

British Nuclear Fuels limited (BNFL)

On 1 April 2005, BNFL issued a debenture for £575 million to the Secretary of State for Trade and industry, under Schedule 6 of the Energy Act 2004.

The debenture, which bears 7.5% interest, provides a mechanism for returning the proceeds from disposals from the BNFL Group to Government and to incentivise its management to maximise cash generation and reduce the outstanding amount of the debenture, so reducing the Group's interest payments.

At the year-end, the outstanding capital balance on the debenture was £550 million after repayments of £25 million following disposals by the Group. Accrued interest at year-end was £41 million and the first scheduled interest payment date is 31 December 2006.

Until 31 March 2006, the Nuclear Liabilities Investment Portfolio (NLIP), including the Springfields investments (these are Gilts earmarked to cover decommissioning costs at the Springfield site), which represents funds historically earmarked for the costs associated with the discharge of nuclear liabilities, was held by BNFL. Following the transfer of the responsibility for the discharge of the nuclear liabilities to the NDA, BNFL ceased to have a beneficial interest in the NLIP. That interest passed to HM Government on 31 March 2006 and BNFL will continue to manage the NLIP on behalf of Government until the logistics of the transfer are finalised and agreed. At that point, the funds will be remitted to the Secretary of State for Trade and Industry and immediately returned to the Consolidated Fund.

At 31 March 2006, the market valuation of the NLIP (including Springfields) was £3,706 million and this value is shown in the Department's balance sheet as a current asset investment and a matching creditor. This reflects the fact that it is expected that the portfolio will be fully liquidated by 31 March 2007 and all amounts transferred to the Consolidated Fund by that date. These changes have been effected from 1 April 2005 for consistency with the FReM merger accounting requirements applied for transfers of functions in the public sector. Therefore the NLIP (including Springfields) is shown at a market value of £4,127 million (from BNFL accounts) coming into the Department's balance sheet at the beginning of the year. In April 2005, £700 million of the NLIP was liquidated and transferred to the Consolidated Fund via DTI. There has been an increase in year of £279 million due to movements in the investments in the year and changes in market valuations.

Since the end of the financial year, £1,790 million has been liquidated and returned to the Consolidated Fund.

Coal Health Compensation Schemes

Investigations by the Police and the Serious Fraud Office into allegations of fraud in connection with the Coal Health Compensation Schemes found that no fraud had been perpetrated against the DTI. An external review into the integrity of the management of the schemes by the DTI found the arrangement to be generally sound although some significant lessons could be learned about how the schemes were first put into operation. No major changes were needed to improve the running of the schemes and the Department is working on implementing the recommendations contained in the report.

Royal Mail Holdings Plc

Royal Mail Holdings plc is a company that is wholly owned by Government.

On 6 February 2001 Royal Mail utilised a £500 million NLF loan facility that was made available to it, to assist with the company's acquisition of German Parcel. The facility comprises 20 separate tranches of £25 million each, the first tranches of which do not begin to mature until 20 March 2021. Therefore, the outstanding balance for this NLF loan on 31 March 2006 remains at the full £500 million. Royal Mail makes annual interest payments on the loan.

At the end of 2002 the Government agreed a new financing package for the Royal Mail mails business. This package, which comprised £1,044 million of debt finance from the Government on commercial terms, provided Royal Mail with the funds it needed to deliver its restructuring programme for its mail business with the aim of returning the company to sustainable profitability. £544 million of this package is a loan funded through National Loans Fund (NLF). For the remainder of this package the Department agreed to buy two bonds that would be issued by Royal Mail, the values of which are £300 million and £200 million respectively. The availability of the £200 million bond agreement lapsed on 20 March 2005. The availability of the £300 million bond has been extended to 20 January 2007. The components of this facility have yet to be utilised and the outstanding balance on 31 March 2006 is therefore nil. See also the reference to the Royal Mail Package on page 10 of this report.

The Department has also made available to Post Office Limited, through an agreement reached on 17 October 2003, a revolving loan facility based on commercial terms of up to £1.15 billion. This is to help the company fund its working capital requirements in light of the migration of state benefits payments to a system of direct payment and the loss of DWP pre-funding to POL, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and

in full, from post office branches. Post Office Limited began utilising this facility on 1 December 2003. The facility matures on 31 March 2010 when any outstanding amounts will need to have been repaid. During 2005-06 the mechanism of cash transfers for the working capital loan changed. Previously, each draw down of cash was treated as a separate short term loan, which then had to be repaid in its own right. Whilst the funding of the Post Office is still managed by agreeing short term loans the cash transfers either from or to the Department and the Post Office are now calculated daily on a net basis. As a result of this the actual money flows are much lower than in previous years and the cash flows are now disclosed net in the accounts. The outstanding balance on 31 March 2006 was £400 million.

Alongside these debt-financing packages, in October 2002 the Department secured Parliamentary approval for funding of up to £210 million for Post Office Limited's 'Urban Network Reinvention Scheme'. Funding was provided under Section 8 of the Industrial Development Act 1982. The scheme, which is administered by Post Office Limited, is UK-wide but relates only to the urban network of sub-post offices located in communities of more than 10,000 inhabitants. To date, a total of £178.78 million has been provided by the Department, funding over 3,000 investment grants and enabling 2,475 closures. Post Office Limited has indicated a need to continue to draw on the remaining Government funding and whilst there is no set end date for the scheme, the Department will continue to closely monitor the company's progress throughout 2006-07.

Delivering Efficiency Targets

DTI's SR04 Efficiency target as in the Gershon Report is to achieve annual efficiencies of at least 2.5% a year, equivalent to at least £380 million by 2007-08. At least half of these efficiencies will be cash releasing, allowing resources to be recycled to priority programmes.

The Department published a refreshed version of its Efficiency Technical Note¹ in December 2005, including descriptions of each major work stream, and greater detail on measurement metrics and methodologies, data sources and quality assurance measures.

An initial audit report by independent consultants, has demonstrated robust efficiency reporting, measurement and data sources by the RDAs and included recommendations for improvement by the Research Councils, which were largely addressed through the publication and implementation of the Research Councils' efficiency measurement methodology by RCUK (available at the RCUK website²). A further audit report by independent consultants is due in July 2006.

A full account of performance in 2005-06 is set out in the Departmental Report 2006. Overall the programme is ahead of trajectory in all its main target areas. By December 2005 the Department had delivered over £180 million³ worth of efficiency gains, of which £144 million is cashable, releasing funds for investment in priority programmes.

The Department has reduced the number of posts in its HQ and Government Offices by 1,062, exceeding the overall target of 1,010 by March 2008. The Department has also reduced staff numbers in its Agencies and NDPBs by 167 against an overall target of 270 to be achieved by March 2008.

Events since the end of the financial year

Employment Tribunals Service

On 1 April 2006 the functions of the Employment Tribunals Service (ETS) transferred to the Department of Constitutional Affairs (DCA) to become part of the new Tribunals Service. A PES transfer has been agreed between DTI and DCA to cover the work of the ETS. As the funding of ETS is dependent on the caseload of the agency, a contingency arrangement has also been agreed should the caseload vary significantly from that on which the transfer is based. Assets to the value of £15,580,796 and liabilities to the value of £7,364,339, giving net assets of £8,216,457 were transferred, with the remaining liabilities staying within the Department.

¹ <http://www.dti.gov.uk/about/strategy-objectives/efficiency-technical-note/page25152.html>.

² <http://www.rcuk.ac.uk/efficiencydelivery/>

³ Based on data available at end of Quarter 4 (except for RDAs where Quarter 3 data is used as RDAs report efficiency with a quarter delay for operational reasons).

Company Investigations Branch

On 1 April 2006 the Company Investigations Branch, previously a part of the Corporate Law and Governance (CLG) Directorate in DTI HQ, merged into the Insolvency Service, one of the Department's Executive Agencies. This move was the result of a recommendation in the Hampton report into regulatory inspection and enforcement, which was accepted by the government in the Chancellor of the Exchequer's budget speech on 16 March 2005. The merger will result in a reduction in CLG's administration costs and programme budgets, and a consequent increase in the Department's programme budget for the Insolvency Service.

British Energy Cash Sweep

The Nuclear Liabilities Fund (NLF) is considered to be a 100% subsidiary of the Department and British Energy Group plc (BE) is a 64.63% quasi-sub subsidiary of NLF and hence the Department. In accordance with the FReM, these bodies are not consolidated into the Departmental resource account, but information on the assets and liabilities, and results, of the two bodies is provided in note 16.

BE makes contributions into the NLF to meet future decommissioning and uncontracted liabilities costs. One of these contributions is referred to as the cash sweep payment.

In respect of the year to 31 March 2006, BE is accruing a payment of £105 million (2005: £0 million) into the NLF in respect of this cash sweep, which is then settled after the year end date. This was calculated as a percentage of BE's adjusted free cash flow. The adjustments are required by the Contribution Agreement, which was put in place at the time of the restructuring on 14 January 2005.

The cash sweep percentage is adjustable (it can rise or fall but is capped between 0% and 65% of BE's annual adjusted available cash) to take account of, for example, payments made to shareholders or proceeds from the issue or sale by BE of ordinary shares or the exercise of warrants.

As at the 31 March 2006, the weighted average cash sweep percentage was 64.74% (2005: 64.99%), reflecting the issue of new ordinary shares as a result of warrants being exercised.

During the annual review of the cash sweep payment payable by BE to the NLF, it was noted that an element of the cash sweep formula did not fully reflect government policy and the intention of the parties at the date of restructuring. The text has therefore been amended to clarify the treatment of bond payments. This clarification has corrected an unintentional increase in the cash sweep but due to the NLF's floating conversion percentage, does not affect the value which can be realised by the NLF to meet its decommissioning and waste processing liabilities.

The NLF has the right, under direction from the DTI, to convert the cash sweep in whole or in part, from time to time, into equity (with voting rights limited to the maximum which can be held without triggering a mandatory offer under the City Code on Takeovers and Mergers – currently 29.9%). This equity can then be sold to a third party (with full voting rights). In the year to 31 March 2006, no conversion or subsequent sale of shares was made by the NLF.

BNFL – Nuclear Liabilities Investment (NLIP)

Following the transfer of the responsibility for the discharge of the liabilities to the NDA, BNFL ceased to have a beneficial interest in the Nuclear Liabilities Investment Portfolio and the Springfield Investments, known together as the NLIP. That interest passed to HM Government on 31 March 2006 and BNFL will continue to manage the NLIP on behalf of Government until the logistics of the transfer are finalised and agreed. At that point, the funds will be remitted to the Secretary of State for Trade and Industry and immediately returned to the Consolidated Fund.

Since the end of the financial year, £1,790 million of the NLIP has been liquidated and returned to the Consolidated Fund via the Department, under a nuclear transfer scheme dated 21 June 2006.

Ministerial Changes

Since the end of the financial year the following ministerial changes were made to the Department as of 9 May 2006.

Former Transport Secretary Alistair Darling joined DTI as Secretary of State, Margaret Hodge replaces Alun Michael as Minister of State for Industry and the Regions. Mrs Hodge joined from the Department for Work and Pensions.

Ian McCartney, Minister without Portfolio and Labour Party chair for the past three years, becomes Minister of State for Trade, Investment and Foreign Affairs, while Jim Fitzpatrick, who moves from the Office of the Deputy Prime Minister, replaces Gerry Sutcliffe as Parliamentary Under-Secretary of State for Employment Relations. Malcolm Wicks remains Minister of State for Energy and Lord Sainsbury as Parliamentary Under-Secretary of State for Science and Innovation.

The Women and Equality Unit

Following the Ministerial reorganization on 5 May 2006, the Women and Equality Unit (WEU) has transferred to the Department of Communities and Local Government (DCLG) in machinery of Government change. As part of the transfer, the WEU's sponsorship responsibilities for the Equal Opportunities Commission and the Women's National Commission, with their associated budgets, have also transferred to the DCLG.

Sale of Wrest Park House, Silsoe, Bedfordshire

Wrest Park House has been in the freehold of DTI, but has been provided to Biotechnology and Biological Sciences Research Council (BBSRC) on a 999-year lease. It sat within the Silsoe research institute, now being closed. Wrest Park is recorded at a nominal value in the DTI's balance sheet. On 3 April 2006 Wrest Park was sold to English Heritage for a nominal sum.

Royal Mail Package

On 18 May 2006, HMG announced a financing framework for Royal Mail that had been agreed with the company in principle and which is designed allow the company to stabilise the pension deficit and finance modernisation. Some £900 million will be in the form of a loan with commercial rates of interest and this amount is an extension of the existing facility. The other £850 million comes from existing Royal Mail reserves, which the company can transfer into a pension escrow account that may be drawn on by the pension trustees in the unlikely event that the company should fail. The loan will be recorded in the Department's 2006-07 accounts.

FINANCIAL REVIEW

Funding and content of the main financial statements

As a Government Department, the DTI 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.

DTI has three Requests for Resources: RfR 1, for Trade and Industry expenditure; RfR 2, for Science expenditure; and RfR3 in respect of the UKAEA Superannuation Schemes.

The Statement of Parliamentary Supply, which is the main Parliamentary control schedule, reports the Outturn against the Estimates for RfR 1 and RfR 2. A separate Resource Account for RfR 3 is produced and published each year and is available from The Stationery Office and on the DTI website.

The Operating Cost Statement shows the resources consumed by the Department during the year, comprising administration and programme expenditure, net of Departmental income. This Statement also includes the statement of recognised gains and losses. *The Balance Sheet* shows the assets, liabilities and taxpayers' equity of the Department at year-end.

The Consolidated Cash Flow Statement, analyses the net cash flow from operating activities, identifies how much was spent by the Department on capital expenditure and investment, records what Consolidated Fund Extra Receipts were collected and paid over to HM Treasury and shows the funding that the Department drew down from the Consolidated Fund to finance its activities during the year. The balance of these cash movements is the Department's net requirement for cash during 2005-06, which is also reported on *The Statement of Parliamentary Supply*.

The Consolidated Statement of Operating Costs by Departmental Aims and Objectives breaks down the total resources consumed against each of the main objectives under the Department's one Aim.

2005-06 Outturns against Estimate

The Statement of Parliamentary Supply, shows under spends against the Estimates of £5,072 million for RfR1 (Trade and Industry programmes) and £93 million for RfR2 (Science programmes). The respective under spends in 2004-05 were £1,057 million and £117 million.

The under spend on RfR1 relates principally to non-cash costs associated with nuclear decommissioning provisions.

As disclosed in the section on Provisions below, on 1 April 2005 the Department extinguished the substantial part of its UKAEA decommissioning and BNFL liabilities as a consequence of changes in responsibilities arising under the Energy Act 2004. The UKAEA decommissioning liabilities became the responsibility of the NDA on 1 April 2005. Following the EC State Aid clearance, the Department also extinguished its liability to BNFL for the Magnox provision and again this was effected in the accounts from 1 April 2005 (see note 23).

At the time of preparation of Estimates the timing and the nature of the transfer had not been determined, and provision was made on the basis that BNFL and UKAEA decommissioning provisions would be recorded on the Department's balance sheet as at 31 March 2006, and that the associated non-cash costs would form part of the Department's operating costs.

Function J in RfR1, Estimates included £1 billion in respect of anticipated upward movements in BNFL and UKAEA provisions, against which no outturns were scored. The underspends generated as a result were offset to some extent by lower than anticipated cost of capital credits on these provisions, but there remained a net underspend of around £590 million.

Function J in RfR1, Estimates included £4.5 billion in respect of the increase in the value of the nuclear provisions due to a change in the discount rate. In the event, the accounting changes were effected as from 1 April 2005.

Other factors contributing to the underspend on RfR1 were:

- A higher than estimated reduction in the Coal Health provisions, with an offset in a reduced cost of capital credit, generating an underspend of £55 million (Function J)
- A lower than anticipated Grant in Aid requirement, by £42 million, of the Regional Development Agencies (Function F)
- Lower than anticipated expenditure on various Innovation programmes (Functions A and E)
- Some underspends amounting to £10 million in regional assistance (Function F)
- £50 million spent on Pay and Paternity payments (Function ZZ).

The under spend in RfR2 is largely explained by three factors. Payments in respect of the Research Council Pensions Scheme were £18 million less than anticipated, due to an in-year change in rules regarding direct funding of the Pension Scheme and reclassification of expenditure; there was lower than expected expenditure in respect of OST Initiatives; and Grant in Aid to the Natural Environment Research Council was lower due to the Council's cash-flow being lower than expected, although full accrued resource and capital expenditure was close to budget.

There were also variations between Estimate and Outturn for some of the items shown in Note 4 Reconciliation of resources to cash requirement.

The apparent underspend on acquisition of fixed assets is principally due to a technical issue covering the treatment of support for capital expenditure in the automotive industry. These have been treated as capital spend for Estimate purposes but the accounts record the outturns as capital grant.

The variance on the acquisition of investments and associated non-operating appropriations in aid are the result of the revised method of accounting for the revolving loan facility to the Post Office, as described above (refer note 16). The change in accounting practice had not been finalised in time to reflect the change in the Spring Supplementary Estimate.

The large underspend on non-cash items refers to the reduced non-cash costs associated with nuclear decommissioning and coal health provisions, as described above.

For further information refer to note 2 on page 54.

Tangible Fixed assets

On 1 August 2005, The Core Store at 36 Gilmerton Road, Edinburgh, a building owned by the Department was leased to the British Geological Survey (BGS). The Core Store is used to store samples of rock cores and cuttings from all wells drilled on the United Kingdom Continental Shelf under the terms of the Petroleum Production licences. The BGS is a research centre wholly owned by the Natural Environment Research Council (NERC), who manages other such scientific material. The NERC is funded by the Department through grant-in-aid. The Department has leased the building to the BGS for the sum of £1 per annum for a term of 10 years.

Investments

The Department holds a number of investments, both fixed and current asset, the total valuation of which as at 31 March 2006 was £9,834 million (2004-05: £5,719 million). The most significant investment is that in the reserves of two closed pension schemes for the former employees of the British Coal Corporation and the BNFL NLIP (as referred to previously).

In addition, the future value of income streams resulting from the specific support to the aerospace industry provided through Launch Investment have a reduced value at 31 March 2006.

Further details of investments are shown at notes 16 and 19 to the accounts.

Fixed Asset Investments

On 1 April 2005, BNFL issued a debenture for £575 million to the Secretary of State for Trade and Industry, under Schedule 6 of the Energy Act. The rate of interest is 7.5 per cent per annum and the final redemption date is 31 March 2012. During the year BNFL paid £27 million to the Department relating to the debenture, £25 million capital and £2 million interest. The Department paid this to the Consolidated Fund. The capital balance of the debenture as at 31 March 2006 is £550 million and accrued interest at the year-end is £41 million and the first scheduled interest payment date is 31 December 2006.

Current Asset Investment

Until 31 March 2006, the Nuclear Liabilities Investment Portfolio (NLIP), including the Springfields investment was held by BNFL. Following the transfer of the responsibility for the discharge of the nuclear liabilities to the NDA, BNFL ceased to have a beneficial interest in the NLIP (and Springfields). That interest passed to HM Government. These changes have been effected from 1 April 2005 for consistency with the FReM merger accounting requirements applied for transfers of functions in the public sector. Therefore, the NLIP (including Springfields) is shown as transferring at a market value of £4,127 million (from the BNFL accounts) on 1 April 2005. In April 2005 £700 million of the NLIP was liquidated and transferred to the Consolidated Fund via DTI. There has been an increase in year of £279 million due to movements in the investment in year and changes in market valuations giving a year end closing balance of £3,706 million. A matching creditor to the Consolidated Fund is also disclosed. This reflects the fact that it is expected that all the portfolio will be fully liquidated by 31 March 2007 and all amounts transferred to the Consolidated Fund.

Since the end of the financial year, £1,790 million has been liquidated and returned to the Consolidated Fund.

Provisions

The Department manages for Government the residual liabilities arising from the coal and civil nuclear industries' past activities. These are long-term commitments and represent, in financial terms, the most significant part of the Department's budget.

Coal provisions

These relate to former British Coal liabilities, which transferred to the Department under the Coal Industry Act 1994.

Health claims make up by far the largest proportion of this expenditure and are expected to have cost a total of around £6.8 billion (undiscounted) over time before they are fully discharged. The forecast is subject to assumptions like the level of disability of outstanding claims and the timing of individual awards made. The amounts included in these accounts reflect the best available estimate of the size of these liabilities at the time, however, the confidence levels remain very wide.

The Department also has a responsibility to provide either solid fuel or a cash alternative to over 111,000 beneficiaries. Approximately three quarters of these have opted for the cash alternative at an average of around £300 per annum, compared with the average annual solid fuel cost to the Department of around £700 per beneficiary. The number of beneficiaries is decreasing at around 5% per year and therefore the liability will continue for several decades. The provision is based on standard female mortality rates and includes an assumption of beneficiaries continuing to switch their entitlement from solid fuel to cash.

The other non-health provision mostly represents the Department's estimated liability in restoration of contaminated former coalfield sites.

Expenditure in 2005-06 on all coal liabilities came to £1,086 million (2004-05: £930 million). Note 22 provides more detail.

Nuclear provisions – NDA

The Nuclear Decommissioning Authority (NDA) was established under the Energy Act 2004 with full functions on 1 April 2005. As a result, with effect from 1 April 2005, the NDA acquired the responsibility for the nuclear liabilities previously under the responsibility of the UKAEA (except the Culham site), and BNFL. Certain MOD nuclear liabilities also passed to the NDA. The discounted value of the MOD liabilities transferred was £4,307 million (£14,022 undiscounted); these liabilities do not pass through the books of the DTI.

As a consequence of the revised arrangements, the Department's liability to cover the costs of the substantial part of its UKAEA decommissioning liabilities has fallen away. Likewise, the Department has also extinguished its liability to BNFL for the Magnox Undertaking. The FReM requires that transfers of functions should be accounted for by merger accounting, and therefore that the transfers of liabilities to the NDA be recognised from 1 April 2005. Thus the consequential changes in the DTI accounts have also been recognised from 1 April 2005. See Note 23.

Under the FReM, there is no requirement for the Department to record a provision or contingent liability for those costs of nuclear decommissioning which are recorded in the NDA's accounts. All payments made by the DTI to the NDA during 2005-06 are recorded as grant in aid payments through the Operating Cost Statement (page 44).

The Culham site that remains with the UKAEA is the host to the Joint European Torus (JET), currently the principal project in the European fusion programme. The site also includes UKAEA fusion research facilities.

Nuclear provisions – British Energy

As a result of the restructuring of British Energy effected in January 2005, the Government assists BE by meeting its contracted historic fuel liabilities and underwriting the costs of meeting specific future decommissioning and uncontracted liabilities.

The DTI has financial responsibility for British Energy's historic contracted spent fuel liabilities and a provision is shown in the accounts, at note 23, at a discounted total value of £2,417 million. It is estimated that the costs to Government will be £191 million a year (undiscounted at March 2006 prices) for the next 8 years. Costs are then expected to fall each year thereafter until the liability is extinguished in 2029.

The provision is based on a forecast payment schedule which is set out in the waste processing contracts. These contracts were drafted before the BE restructuring and therefore the payment schedule has needed to be updated since the calculation of the annual forecast payments is driven by the actual restructuring date. This has led to a reduction in the level of provision although this was then offset by the increase in provision resulting from the change in discount rate applied from 3.5% to 2.2%.

In addition, the NLF has financial responsibility for discharging the costs of BE's qualifying decommissioning and uncontracted liabilities. To the extent that the Fund's assets fall short of those liabilities, the Government will make up the difference. The NLF is a company limited by shares owned by the Nuclear Trust, with the majority of Trustees being appointed by the Secretary of State. BE makes contributions into the NLF to meet these future liabilities as follows:

- Decommissioning payments of £20 million per annum (in March 2003 monetary values and indexed to RPI) tapering as stations are scheduled to close;
- £150,000 (in March 2003 monetary values and indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor;
- A percentage of its annual free cash flow (the 'cash sweep').

The Department discloses a contingent liability/asset arising from Government's underwriting of the NLF (see note 33). The Department believes that there is currently a contingent asset arising from this arrangement but amounts are not sufficiently certain to recognise this in the accounts. In addition, there is a contingent liability in respect of the indemnities provided to Trustees of the NLF (see note 33).

Going Concern

The balance sheet at 31 March 2006 shows negative Taxpayers' Equity of £193 million (2004-05 £12,715 million). This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet DTI's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent moneys, including those derived from the Department's income, are surrendered at year-end to the Fund.

In common with other Government departments, the future financing of DTI's liabilities is to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. Accordingly, it has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Liabilities have reduced significantly since 2004-05. As explained in note 23.1, the Department's liability to cover the substantial part of its UKAEA decommissioning liabilities and the Magnox Undertaking to BNFL has fallen away in 2005-06, removing £11.6 billion from the balance sheet.

MANAGEMENT OF THE DEPARTMENT

Employees

Investors in People

The Department attaches great importance to managing, developing and training its staff in accordance with the principles of "Investors in People" (IiP). DTI headquarters achieved IiP recognition in November 1999. Successful reviews against the revised Standard were undertaken in September 2002 and 2003. The Department achieved re-accreditation against the new IiP Profile, a more in-depth version of the Standard, in April 2006.

Diversity and Equality

The Department's Equal Opportunities Policy aims to ensure that no eligible job applicant or employee receives less favourable treatment on grounds of age, disability, gender, race, colour, nationality, marital status, sexual orientation, religion, belief, religious affiliation, lifestyle or because they work a different working pattern. Advisory groups for racial equality, disability and sexual orientation continued to advise and support the Permanent Secretary and Department on equality issues during the year. A wide-ranging Diversity Strategy for the Department has now been approved, which includes benchmarks and action to address under representation by disadvantaged groups at all levels.

Provision of information to, and consultation with, employees

The DTI has a communications strategy in place and uses a range of channels to communicate with its staff and raise awareness and understanding of key corporate messages across the whole Department including: 'DTI News', the staff magazine; a DTI Intranet which provides a personalised view of information across the whole of the DTI; an electronic filing system that allows staff to share knowledge and information on all work-related issues; and a web site that informs on speeches, Parliamentary Questions, press lines to take and ministerial briefings; as well as an ongoing series of training events, stakeholder workshops, and face to face meetings.

The Whitley Council and its sub-Committees met regularly during 2005-06. In addition, as part of its commitment to good employment relations and to working in partnership, DTI's management met frequently with Departmental Trade Union Side representatives.

CORPORATE GOVERNANCE

Ministers

The responsibilities of the Ministers with responsibility for Trade and Industry as at 31 March 2006 were as follows:

Secretary of State for Trade and Industry (from 9 May 2005)	The Rt Hon Alan Johnson, MP
Minister of State for Industry and the Regions (from 10 May 2005)	The Rt Hon Alun Michael, MP
Parliamentary Under-Secretary of State for Trade, Investment and Foreign Affairs (from 10 May 2005)	Ian Pearson, MP
Parliamentary Under-Secretary of State for Energy (from 10 May 2005)	Malcolm Wicks, MP
Parliamentary Under-Secretary of State for Competitiveness (from 10 May 2005)	Barry Gardiner, MP
Parliamentary Under-Secretary of State for Women and Equality (from 13 May 2005)	Meg Munn, MP

Parliamentary Under-Secretary of State for Science and Innovation	Lord Sainsbury of Turville
Parliamentary Under-Secretary of State for Employment Relations and Consumers Affairs.	Gerry Sutcliffe, MP

In addition, the following also held Ministerial responsibility during 2005-06:

Secretary of State for Trade and Industry, Minister for Women and Equality and e-Minister in the Cabinet (to 6 May 2005)	The Rt Hon Patricia Hewitt, MP
Minister of State for Energy and E-Commerce (to 9 May 2005)	Mike O'Brien, MP
Minister of State for Industry and the Regions and Deputy Minister for Women and Equality (to 9 May 2005)	The Rt Hon Jacqui Smith, MP
Minister of State for Trade, Investment and Foreign Affairs (to 6 May 2005)	Douglas Alexander, MP
Parliamentary Under-Secretary of State for Construction, Small Business and Enterprise (to 9 May 2005)	Nigel Griffiths, MP

The remuneration of Ministers, which is determined in accordance with the provisions of 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, is detailed further in the Remuneration Report to these accounts.

Permanent Head of the Department

The permanent head of the DTI is the Permanent Secretary. Dr Catherine Bell acted as Permanent Secretary until 2 October 2005. Sir Brian Bender KCB, has been appointed as Permanent Secretary of the Department as from 3 October 2005. The Civil Service Management Code governs the Permanent Secretary's appointment, including length of time of the appointment.

The Remuneration Report to these accounts provides details of salaries and pension entitlements in respect of the Permanent Secretary and the other most senior members of the Department.

Departmental Boards and Committees

During 2005, the DTI reviewed its high level processes, and the way in which business is handled and decisions are made, to improve the governance and effectiveness of the Department. The new corporate governance structure builds on existing bodies and practices to:

- Clarify the roles of the boards and the relationships between them;
- Make greater use of independent board members (IBMs) to challenge, advise and increase transparency;
- Use committees to consider options and refine information before presentation to the board;
- Push decision making down the organisation; and
- Encourage corporate behaviour.

The DTI's corporate governance structure comprises a Management Board and 3 sub-Committees: the Audit and Risk Committee, the Executive Committee, the Resources Committee. The Strategy Board sits outside the formal Corporate Governance structure, to reflect its primary role as a forum in which the Secretary of State, Permanent Secretary and Ministers set the strategic direction of the Department.

Through the reorganisation in 2005-06, the previous Executive Board was renamed the Management Board; the Audit Committee was replaced by the Audit and Risk Committee; and the Permanent Secretary's Committee was renamed the Executive Committee. There was no change to the Resource Committee. The Performance Monitoring Committee will no longer be part of the Department's

formal governance arrangements and has been replaced by the Delivery Challenge Group. The Investment Committee was disbanded in March 2006.

Members of all these Groups, Boards and Committees (with the following exceptions) are civil servants, appointed in accordance with the Civil Service Code. Their remuneration is determined in accordance with Cabinet Office guidelines, which take into account the recommendations of the Senior Salaries Review Body. The exceptions are: the Independent Board Members (IBMs), the Secretary of State and Ministers.

The IBMs are appointed for an initial term of two or three years with the possibility of a second similar term. Remuneration is based on a flat-rate annual honorarium plus reimbursement of reasonable expenses.

Those members of the DTI's Groups, Boards and Committees who are also civil servants are, by the terms of that employment, precluded from holding any company directorships or other significant interests that may conflict with their management responsibilities. The IBMs are required to declare any personal or business interests which may, or may be perceived to, influence their judgement and are asked on a regular basis to keep this updated.

Strategy Board

The Strategy Board's role is to provide the Secretary of State with advice on the Department's strategic direction. Board meetings are held in workshop format, to facilitate broad thinking and discussion and to gather a wide exchange of views from across the Department's Boards.

The Members of the Strategy Board as of 31 March 2006 and during the year were:

Secretary of State for Trade and Industry (from 9 May 2005)	The Rt Hon Alan Johnson, MP
Minister of State for Industry and the Regions (from 10 May 2005)	The Rt Hon Alun Michael, MP
Parliamentary Under-Secretary of State for Trade (from 10 May 2005)	Ian Pearson, MP
Parliamentary Under-Secretary of State for Energy (from 10 May 2005)	Malcolm Wicks, MP
Parliamentary Under-Secretary of State for Competitiveness (from 10 May 2005)	Barry Gardiner, MP
Parliamentary Under-Secretary of State for Employment Relations and Consumers Affairs	Gerry Sutcliffe, MP
Parliamentary Under-Secretary of State for Science and Innovation	Lord Sainsbury of Turville
Parliamentary Under-Secretary of State for Women and Equality (from 13 May 2005)	Meg Munn, MP

Independent members

<i>(Group Chief Executive of Logica CMG, Non-Executive Director of Boots Plc and British Airways. Member of the Council of Southampton University)</i>	Dr Martin Read
<i>(Deputy General Secretary, Community) (Vice Chancellor of the University of Oxford) (Chairman, Sabre Capital Worldwide, Non-Executive Director of Pearson Plc, Fortis SV and NA and of Schlumberger Limited)</i>	Paul Gates OBE Dr John Hood Rana Talwar

In addition, the following were also members of the Strategy Board during 2005-06:

Secretary of State for Trade and Industry and Minister for Women (Chair) (to 6 May 2005)	The Rt Hon Patricia Hewitt, MP
Minister of State for E-Commerce, Energy and Competitiveness (to 9 May 2005)	Mike O'Brien, MP

Minister of State for Industry, Regions, Deputy Minister Women and Equality (to 9 May 2005)	The Rt Hon Jacqui Smith, MP
Minister of State for Trade, Investment and Foreign Affairs (to 6 May 2005)	Douglas Alexander, MP
Parliamentary Under-Secretary of State for Small Business and Enterprise (to 9 May 2005)	Nigel Griffiths, MP
Permanent Secretary (to 2 October 2005)	Dr Catherine Bell
Independent member (12 June 2005) <i>(Non-Executive Director, Scottish Power, Patientline Ltd, oolworths Holdings Ltd (South Africa) and GWR Group Plc)</i>	Mair Barnes CBE
<i>Also attending:</i>	
Chief Scientific Adviser and Head, Office of Science and Technology	Prof Sir David King
And all members of the Management Board (see below).	

Management Board

This board replaces the Executive Board and started operating in February 2006.

The Management Board's role is to set the Department's strategic aims, agree the Business Plan, ensure resources are in place to deliver the Department's objectives and monitor performance against these objectives. The Committee met on a monthly basis (except August).

The Members of the Management Board as of 31 March 2006 and during the year were:

Permanent Secretary (from 3 October 2005)	Sir Brian Bender
Chief Executive, UK Trade & Investment (from 27 March 2006)	Andrew Cahn
Director General, Services Group	David Evans
Director, Strategy and Communications (from 5 September 2005)	Matthew Hilton
Director, Finance Resource Management	Adam Jackson
Director General, Business Group	Mark Gibson
Director General, Fair Markets Group (from 5 September 2005)	John Alty
Director General, Innovation Group	David Hughes
Solicitor and Director General, Legal Services (Deputy Chair)	Anthony Inglese
Director General, Energy Group (from 6 March 2006)	William Rickett
Director General, Research Councils	Sir Keith O'Nions
Chief Economic Adviser and Director General, Economics	Vicky Pryce
<i>Independent members</i>	
<i>(Senior Adviser, Bain & Company Inc, and former Chairman of the CBI London Region)</i>	Crawford Gillies
<i>A member of the Board of the South East of England Development Agency and former member of the Cultural Consortium for the South East, Chairman of Sport England South East, Member of the Board of Sport England, Director of Media Local Solutions Ltd and Member of the Committee for the All England Club)</i>	Mary McAnally

(Co-Founder and Partner of Leaders' Quest: Non-Executive Director of Savills plc, the Carnegie Group, the Royal London Group, and CDC Group plc; Governor, King's College London) Fields Wicker-Miurin

(Chairman of West Bromwich Building Society and a member of the Committee on Standards in Public Life, formerly Chairman of Pricewaterhouse-Coopers) Dr Brian Woods-Scawen

In addition, the following were also Board members during 2005-06:

Chief Executive, UK Trade & Investment (to 26 December 2005) Sir Stephen Brown

Chief Executive, UK Trade & Investment (from 27 December 2005 to 26 March 2006) Susan Haird

Permanent Secretary (to 2 October 2005) Dr Catherine Bell

Director General, Fair Markets Group (to 22 April 2005) Stephen Haddrill

Director General, Fair Markets Group (to 4 September 2005) Edmund Hosker

Director, Strategy and Communications (to 4 September 2005) Geoff Dart

Director General, Energy Group (to 5 March 2006) Joan MacNaughton

Also attending:

Chief Scientific Adviser and Head, Office of Science And Technology Prof Sir David King

Chief Executive, Shareholder Executive Richard Gillingwater

Audit and Risk Committee

The DTI Audit and Risk Committee's purpose is to support the Permanent Secretary in his role as Accounting Officer for the DTI by promoting confidence in the Department's governance, overseeing the work of the internal and external auditors and reviewing the annual financial statements before submission to the Management Board. In order to discharge these responsibilities the Committee met five times in 2005-2006.

Membership of the DTI Audit and Risk Committee (formerly Audit Committee) as of 31 March 2006 and during the year was:

Independent Chair	Crawford Gillies
Director General, Business Group	Mark Gibson
Solicitor and Director General, Legal Services	Anthony Inglese
Head of Energy Market Unit	Claire Durkin

Independent members

<i>(Chairman, Threshold Housing and Support)</i>	Barry Rourke
<i>(Deputy Chair of the Food Standards Agency, Chair of the Committee of Reference overseeing the group of ethical investment funds provided by Friends Provident and F & C)</i>	Julia Unwin OBE

<i>(Chairman of West Bromwich Building Society and a member of the Committee on Standards in Public Life, formerly Chairman of Pricewaterhouse-Coopers)</i>	Dr Brian Woods-Scawen
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The Permanent Secretary (as Accounting Officer for DTI), Director of Finance and Resource Management Directorate, the Director of Internal Audit and a Director of the National Audit Office also normally attend meetings of the Committee.

Executive Committee

The DTI Executive Committee's role is to consider selected high-level business planning and management issues, key SCS performance issues (including acting as the SCS Performance and Development Committee twice a year when two independent members will also be present), and to agree the Department's honours recommendations. In order to discharge these responsibilities the Committee met monthly in 2005-2006 (except August).

Membership of the DTI Executive Committee (formerly the Permanent Secretary's Committee) as of 31 March 2006 and during the year was:

Permanent Secretary (from 3 October 2005)	Sir Brian Bender
Chief Executive, UK Trade & Investment from 27 March 2006)	Andrew Cahn
Director General, Services Group	David Evans
Director, Strategy and Communications (from 5 September 2005)	Matthew Hilton
Director General, Business Group	Mark Gibson
Director General, Fair Markets Group (from 5 September 2005)	John Alty
Director General, Innovation Group	David Hughes
Solicitor and Director General, Legal Services (Deputy Chair)	Anthony Inglese
Director General, Energy Group (from 6 March 2006)	William Rickett
Director General, Research Councils	Sir Keith O'Nions
Chief Economic Adviser and Director General, Economics	Vicky Pryce
Independent members (when meeting as SCS P&D Committee only)	<i>Mary McAnally</i> <i>Fields Wicker-Miurin</i>

In addition, the following were also Committee members during 2005-06

Acting Permanent Secretary (to 2 October 2005)	Dr Catherine Bell
Chief Executive, UK Trade & Investment (to 26 December 2005)	Sir Stephen Brown
Interim Chief Executive, UK Trade & Investment (from 27 December 2005 to 26 March 2006)	Susan Haird
Interim Director General, Fair Markets Group (to 4 September 2005)	Edmund Hosker
Director General, Energy (to 5 March 2006)	Joan McNaughton
Also attending:	
Chief Executive, Shareholder Executive	Richard Gillingwater

Resources Committee

The Resources Committee oversees the effective and efficient delivery of Departmental priorities, through the allocation of appropriate resources and by monitoring delivery in 2005-06. The Committee met on a monthly basis (except August).

The members of the Resources Committee as of 31 March 2006 and during the year were:

Solicitor and Director General, Legal Services (Chair)	Anthony Inglese
Director General, Services Group	David Evans
Director, Corporate Law & Governance (to 4 September 2005)	Geoff Dart

Director, Finance Resource Management	Adam Jackson
Group Director, Transdepartmental Science & Technology	Jeremy Clayton
Head of Business Relations 2	David Hendon
Director, Strategy and Communications (from 5 September 2005)	Matthew Hilton
Head of Energy Industries and Technologies Unit	Peter Waller
Director, Information and Workplace Services	Yvonne Gallagher
Director, Operations	Ian Jones
Director of Human Resources & Change Management	Shirley Pointer
Deputy Chief Economic Adviser	Ken Warwick
Deputy Chief Executive, UK Trade & Investment	Susan Haird
Chief Executive, Insolvency Service	Desmond Flynn

Independent members

(National Council Member of the Learning and Skills Council, non-executive director of the Banking Code Standards Board, Non-Executive director of the UK Trade & Investment Board, and Chairman of the Open University Audit Committee)

Claire Ighodaro

(Independent consultant and Non-Executive Director, formerly a Director of the Post Office)

Jean Irvine OBE

(Corporate Responsibility Director for the Barclays Group)

David Weymouth

Investment Committee

The Investment Committee, disbanded in March 2006, provided independent strategic advice on business cases for major outward facing programme and capital grant spend, and on management of the business support portfolio. In order to discharge these responsibilities the Committee met five times in 2005-2006.

The members of the Investment Committee during the year were:

Independent Members

(Co-Founder and Partner of Leaders' Quest: Non-Executive Director of Savills plc, the Carnegie Group, the Royal London Group, and DC Group plc; Governor, King's College London)

Fields Wicker-Miurin (Chair)

(Independent Consultant and Non-Executive Director of British Empire Securities plc and The Engineering Business)

Rosamund Blomfield-Smith

(Chair, SEEDA)

Jim Brathwaite

(Joint Managing Partner, Phoenix Equity Partners Ltd)

Sandy Muirhead

(Founder Rapid Access Technology Partners)

Caroline Whitfield

Non-Executive Director of Dominick Hunter Group plc, the N G Bailey Organisation Ltd and Hardy and Greys Ltd)

Richard Maudslay

Also Attending:

Chief Economic Adviser & Director General Economics

Vicky Pryce

Director of Finance and Resource Management

Adam Jackson

Director-General Business Group

Mark Gibson

Director-General Innovation Group

David Hughes

HMT representative

John Kingman

Performance Monitoring Committee

The Performance Monitoring Committee, disbanded in January 2006, met quarterly through 2005-06 to appraise emerging objective delivery plans and business cases, especially proposed measures, targets and risk management plans. The challenge function continues with the Chief Economic Adviser & Director General Economics, supported by three Independent Board Members, making recommendations to the Board on DTI's delivery performance.

The members of the Performance Monitoring Committee during the year were:

Chief Economic Adviser & DG economics (Chair)	Vicky Pryce
Director, Strategy and Communications (from 5 September)	Matthew Hilton
Director, Finance Resource Management	Adam Jackson
Deputy Chief Executive of UKTI	Susan Haird
Director, Space and Director General, BNSC	Colin Hicks
Head of Energy Strategy Unit	Paul McIntyre
Deputy Director General, Regions	Stephen Speed
Director, Legal Services	Mike Thomas
Director, Research Base	John Neilson
Director, Industry Economics and Statistics	Mark Beatson
Director, Consumer & Competition Policy	David Saunders
<i>Also in Attendance</i>	
Director, Internal Audit	Jon Whitfield
Independent Members	
(Independent Management Consultant and Non-Executive Director)	Mike Jeans
(Chief Executive, South West Sheffield Primary Care Trust)	Janet Soo-Chung
(Chairman, United Kingdom Atomic Energy Authority)	Hon Barbara Thomas

REMUNERATION REPORT

Remuneration Policy

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

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 regards 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;
- the Government inflation target.

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.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments 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 below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Salary and pension entitlements for Ministers of the Department:

The salary and pension entitlements of the Ministers of the Department of Trade and Industry for the year ending 31 March 2006 were as follows:

2005-06	Accrued pension at 65 at 31/03/06 £000	Real Increase in pension at age 65 £000	CETV at 31/03/06 £000	CETV at 31/03/05 £000	Real increase in CETV £000	Ministerial salary received 2005-06 £	Ministerial salary received 2004-05 £
Secretary of State							
Rt Hon Alan Johnson, MP (from 9 May 2005)	5-10	0-2.5	58	47 ¹	7	62,418 ¹	–
Rt Hon Patricia Hewitt, MP (to 6 May 2005)	5-10	0-2.5	90 ²	89	1	6,242 ²	73,361
Ministers of State							
Alan Michael, MP (from 10 May 2005)	5-10	0-2.5	89	74 ³	8	32,378 ³	–
Ian Pearson*, MP (from 10 May 2005)	–	–	–	–	–	–	–
Malcolm Wicks, MP (from 10 May 2005)	5-10	0-2.5	62	50 ⁴	6	32,378 ⁴	–
Jacqui Smith, MP (to 9 May 2005)	0-5	0-2.5	32 ⁵	31	0	9,713 ⁵	37,796
Mike O'Brien, MP (to 9 May 2005)	5-10	0-2.5	51 ⁶	49	1	6,746 ⁶	–
Douglas Alexander*, MP (to 6 May 2005)	–	–	–	–	–	–	–
Stephen Timms, MP (to 13 September 2004)	–	–	–	–	–	–	22,047 ⁷
Parliamentary Under-Secretaries of State							
Lord Sainsbury of Turville**	–	–	–	–	–	–	–
Gerry Sutcliffe, MP	0-5	0-2.5	45	35	5	29,491	28,688
Barry Gardiner, MP (from 10 May 2005)	0-5	0-2.5	9	10 ⁸	6	24,576 ⁸	–
Meg Munn**, MP (from 13 May 2005)	–	–	–	–	–	–	–
Nigel Griffiths, MP (to 9 May 2005)	0-5	0-2.5	39 ⁹	38	1	7,373 ⁹	28,688

* Salary and pension details can be found in the Departmental resource accounts for 2005-06 of the Foreign and Commonwealth Office.

** Lord Sainsbury and Meg Munn have elected not to draw a Ministerial salary and are not members of the Parliamentary Contribution Pension Fund.

¹ The salary figure quoted is for the period 9 May 2005 to 31 March 2006, full year equivalent is £74,902. CETV at 9 May 2005.

² The salary figure quoted is for the period 1 April 2005 to 6 May 2005, full year equivalent is £74,902. CETV at 6 May 2005.

³ The salary figure quoted is for the period 10 May 2005 to 31 March 2006, full year equivalent is £38,854. CETV at 10 May 2005.

⁴ The salary figure quoted is for the period 10 May 2005 to 31 March 2006, full year equivalent is £38,854. CETV at 10 May 2005.

⁵ The salary figure quoted is for the period 1 April 2005 to 9 May 2005, full year equivalent is £38,854. CETV at 9 May 2005.

⁶ The salary figure quoted is for the period 1 April 2005 to 9 May 2005, full year equivalent is £38,854. CETV at 9 May 2005.

⁷ Figure quoted is for the period 13 September 2004 to 31 March 2005. The full year equivalent is £37,796.

⁸ The salary figure quoted is for the period 10 May 2005 to 31 March 2006, full year equivalent is £29,491. CETV at 10 May 2005.

⁹ The salary figure quoted is for period 1 April 2005 to 9 May 2005, full year equivalent is £29,491. CETV at 9 May 2005.

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.

This report is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional Ministerial remuneration; the salary for their services as an MP £59,095 (2004-05 £57,485) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Benefits in kind

None of the Ministers received any benefits in kind from the Department during the year.

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 employees of the PCPF, can opt to increase their accrual rate from 15 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 MP's benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

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

The real increase in the value of the CETV

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

Salary and pension entitlements for the senior managers of the Department:

The salary and pension entitlements of the most senior members of the Department of Trade and Industry were as follows:

2005-06	Accrued pension at age 60 at 31/03/06 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/03/06 £000	CETV at 31/03/05 £000	Real increase in CETV £000	Salary including performance pay £000
Sir Brian Bender (from 3 October 2005) ¹	60-65 plus 190-195 lump sum	0-2.5 plus 5-7.5 lump sum	1,388	1,218 ³	37	65-70 (155-160 full year equivalent)
Dr Catherine Bell (to 31 December 2005) ²	60-65 plus 175-180 lump sum	15-17.5 plus 32.5-35 lump sum	1,276 ³	807	29	115-120 (130-135 full year equivalent)
John Alty (from 5 September 2005)	35-40 plus 105-110 lump sum	2.5-5 plus 10-12.5 lump sum	657	527 ⁴	59	65-70 (115-120 full year equivalent)
Sir Stephen Brown (to 26 December 2005) ⁵	–	–	–	–	–	–
David Evans	45-50 plus 120-125 lump sum	5-7.5 plus 7.5-10 lump sum	1,046	759	41	100-105
Mark Gibson	40-45 plus 130-135 lump sum	0-2.5 plus 5-7.5 lump sum	880	674	35	120-125
Richard Gillingwater ⁶	–	–	–	–	–	–

¹ CETV at 3 October 2005.

² Dr Catherine Bell stepped down as acting Permanent Secretary on 2 October 2005.

³ CETV at 31 December 2005.

⁴ CETV at 5 September 2005.

⁵ Salary and pension disclosure can be found in the Departmental resource accounts for 2005-06 of the Foreign and Commonwealth Office.

⁶ On secondment from the Cabinet Office. DTI was invoiced for a total amount of £261,369 for the use of his services during the 2005-06 year.

2005-06 <i>continued</i>	Accrued pension at age 60 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/03/06 £000	CETV at 31/03/05 £000	Real increase in CETV £000	Salary including performance pay £000
Stephen Hadrill (to 22 April 2005)	30-35 plus 95-100 lump sum	0-2.5 plus 0-2.5 lump sum	498 ¹	482	1	5-10 (115-120 full year equivalent)
Matthew Hilton (from 5 September 2005)	10-15 plus 35-40 lump sum	0-2.5 plus 5-7.5 lump sum	168	100 ³	25	40-45 (75-80 full year equivalent)
Edmond Hosker (to 5 September 2005) ²	30-35 plus 95-100 lump sum	0-2.5 plus 5-7.5 lump sum	510 ²	397	39	45-50 (110-115 full year equivalent)
David Hughes	25-30	2.5-5	574	434	46	175-180
Anthony Inglese	45-50 plus 135-140 lump sum	0-2.5 plus 5-7.5 lump sum	961	741	37	125-130
Adam Jackson	10-15 plus 40-45 lump sum	2.5-5 plus 10-12.5 lump sum	170	86	44	80-85
Professor Sir David King ⁴	0-5	0-2.5	32	–	28	135-140 (160-165 full year equivalent)
Joan McNaughton	50-55 plus 150-155 lump sum	0-2.5 plus 5-7.5 lump sum	1,096	849	40	120-125
Sir Keith O’Nions	40-45 plus 130-135 lump sum	0-2.5 plus 0-5 lump sum	1,055	919	38	165-170
Vicky Pryce	0-5 plus 10-15 lump sum	0-2.5 plus 2.5-5 lump sum	99	56	28	160-165

¹ CETV at 22 April 2005.

² Edmond Hosker was acting Director General until 5 September 2005. He is still currently an employee of DTI. CETV at 5 September 2005.

³ CETV at 5 September 2005.

⁴ Professor Sir David King joined the Department on 1 May 2005, so there are no prior year CETV figures for his pension.

2005-06 continued

	Accrued pension at age 60 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/03/06 £000	CETV at 31/03/05 £000	Real increase in CETV £000	Salary including performance pay £000
William Rickett (from 6 March 2006)	45-50 plus 145-150 lump sum	0-2.5 plus 0-2.5 lump sum	993	989 ¹	2	5-10 (full time equivalent) 105-110
Susan Haird (from 27 December 2005 to 26 March 2006)	35-45 plus 115-120 lump sum	0-2.5 plus 2.5-5 lump sum	792 ²	723 ³	31	25-30 (105-110 full year equivalent)
Andrew Cahn (from 27 March 2006)	0-5	0-2.5	–	–	–	0-5 (180-185 full year equivalent)

¹ CETV at 6 March 2006.² CETV at 26 March 2006.³ CETV at 27 December 2005.

2004-05	Accrued pension at age 60 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/03/05 £000	CETV at 31/03/04 £000	Real increase in CETV £000	Salary including performance pay £000
Sir Robin Young ¹	55-60 plus 175-180 lump sum	0-2.5 plus 2.5-5 lump sum	1,045	974	25	155-160
Dr Catherine Bell	45-50 plus 135-140 lump sum	2.5-5 plus 7.5-10 lump sum	766	674	37	125-130
Sir Stephen Brown ²	–	–	–	–	–	–
Mark Gibson	40-45 plus 120-125 lump sum	2.5-5 plus 5-7.5 lump sum	669	586	46	120-125
Stephen Hadrill	30-35 plus 95-100 lump sum	0-2.5 plus 2.5-5 lump sum	494	444	19	115-120
David Hughes	25-30	0-2.5	354	307	21	170-175
Anthony Inglese	40-45 plus 130-135 lump sum	0-2.5 plus 2.5-5 lump sum	736	669	22	120-125
Professor Sir David King ³	–	–	–	–	–	–
Joan MacNaughton	45-50 plus 140-145 lump sum	0-2.5 plus 5-7.5 lump sum	795	732	22	115-120
Vicky Price	0-5 plus 5-10 lump sum	0-2.5 plus 2.5-5 lump sum	56	32 ²	16	155-160
David Evans (from 1 March 2005)	40-45 plus 105-110 lump sum	0-2.5 plus 0-2.5 lump sum	690	687 ⁴	13	5-10 (110-115 full year equivalent)

¹ Sir Robin Young stepped down as Accounting Officer on 28 February 2005.

² Salary and pension disclosure can be found in the Departmental resource accounts for 2004-05 of the Foreign and Commonwealth Office.

³ On secondment – amounts disclosed are amounts paid to the parent organisation under the contract for services of the secondee.

⁴ CETV at 1 March 2005.

2004-05 continued

	Accrued pension at age 60 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/03/05 £000	CETV at 31/03/04 £000	Real increase in CETV £000	Salary including performance pay £000
Edmund Hosker (from 24 March 2005)	30-35 plus 90-95 lump sum	0-2.5 plus 5-7.5 lump sum	412	411	22	0-5 (110-115 full year equivalent)
Sir Keith O'Nions ¹	40-45 plus 125-130 lump sum	0-2.5 plus 2.5-5 lump sum	779	733	13	105-110 (140-145 full year equivalent)
Richard Gillingwater ² (from 14 June 2004)	-	-	-	-	-	-

Note: The information relates only to the senior managers of the core department. Similar information relating to the Chief Executives and senior managers of the executive agencies and other bodies within the consolidation boundary is given in the separate accounts of those bodies.

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

None of the senior managers of the Department received any benefits in kind during the year.

Civil Service Pensions

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

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

¹ Salary details are for 12 July 2004 onwards. Prior to 12 July, on loan from the Ministry of Defence for one day a week.

² On secondment from the Cabinet office. Salary and pension disclosures can be found in the resource accounts for that department.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee 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% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement). There were no employer contributions to partnership pension accounts during the year.

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

The Cash Equivalent Transfer Value (CETV)

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

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

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.

Fees paid to Independent Board Members

Below are the annual fees plus expenses paid to the independent members of the Department's Management and Strategy Boards. The total payments for the year to each person were in the following ranges:

<i>Independent Member</i>	<i>Fees & Expenses</i>
Paul Gates	0-5k*
Dr John Hood	0-5k*
Dr Martin Read	0-5k*
Rana Talwar	0-5k*
Mair Barnes	5-10K**
Mary McAnnally	5-10k***
Crawford Gillies	5-10k****
Dr Brian Woods-Scawen	5-10k*****
Fields Wicker-Miurin	5-10k*****

- * Includes fees and expenses paid for independent membership of the Strategy Board
- ** Includes fees and expenses paid for independent membership of the Strategy Board until their appointment ended in June 2005.
- *** Includes fees and expenses paid for independent membership of the Management Board & Strategy Board.
- **** Includes fees and expenses paid for independent membership of the Management Board & Strategy Board and ex-officio Chair of the Audit and Risk Committee.
- ***** Includes fees and expenses paid for independent membership of the Management Board & Audit and Risk Committee.
- ***** Includes fees and expenses paid for independent membership of the Management Board & Strategy Board and ex-officio Chair of the Investment Committee.

PUBLIC INTEREST AND OTHER

Payment of suppliers

The Department's policy is to comply with the Better Payment Practice Code, which includes the Late Payments of Commercial Debts (Interest) Act 1988. The Department's standard terms and conditions for the supply of goods or services specify payment within 30 days, or other agreed credit terms, of receipt of goods or services or valid invoice, whichever is the later. In 2005-06, the core Department paid 93.9% of undisputed invoices within the credit term (87.3% in 2004-05) and is currently working with relevant staff and suppliers to improve this rate. The consolidated Department paid 95.7% of undisputed invoices within the credit term (92.6% in 2004-05).

During 2005-06 the Department paid a total of £4,054 (2004-05: £31,609) to suppliers for the late payment of invoices.

Auditors

These financial statements have been audited, under the Government Resources and Accounts Act 2000, by the Comptroller and Auditor General (C&AG), who is appointed under statute and reports to Parliament. The audit opinion is on pages 41 to 42. The notional cost to the Department of the external audit of the core account by the National Audit Office for the C&AG was £220,000 (2004-05 – £190,000). The total cost of work on the consolidated account was £364,000 (2004-05 – £327,000).

The NAO also completed other work relating to core department activities. The main areas of work where subsequent reports were published by the Public Accounts Committee during 2005-06 or subsequently were as follows:

- The Renewable Energy report noted progress made by the Department towards the 2010 target for production of electricity from renewable sources but cautioned that, in the period to 2010, the contribution of renewables to reducing carbon emissions could be offset by the planned closure of most of the UK's existing nuclear power stations (PAC Report HC 413 issued 15 September 2005).
- The report on the UK's Civil Space Activities pointed to the many strengths of the programme but also identified scope for the Department to identify and analyse further opportunities for productive investment in space and to continue to develop risk management of space programmes (PAC Report HC 47 published 9 June 2005).

During 2005-06, and subsequently the NAO also published reports on:

- The closure of MG Rover, published in March 2006. The report concluded that the cost to the taxpayer of a support package to the local economy arising from the closure of MG Rover is likely to be around £146 million. Other costs included a loan of £6.5 million made after the company had gone into administration to sustain the business for a week while the administrators sought to sell the company as a going concern. The report was doubtful whether the loan represented sufficiently good value for money. A number of recommendations were made to improve decision-making, contingency planning, the delivery of training and support in the event of a large-scale company failure.
- The restructuring of British Energy, published in March 2006. In this report, the C&AG concluded that the Department's intervention in the rescue and restructuring of British Energy avoided immediate risks to nuclear safety and security of supply, but had left the taxpayer with a large and uncertain liability. The C&AG recommended close scrutiny of British Energy to protect the taxpayer's position. He also noted that the Department made effective use of advisors but there were weaknesses in the way they were appointed.
- The study of the termination of the PFI Contract for the National Physical Laboratory, published May 2006, examined the termination of the PFI contract. The C&AG concluded that the Department handled the termination of the contract well. But different handling of the project by all parties at the early stages might have avoided the problems that led to the termination.

- This report, published in May 2006, examined the performance framework within which the Small Business Service (SBS) operates and how it monitors and evaluates Government support for small business. The C&AG concluded that the SBS has delivered some successful projects itself, but to date does not have measures to establish its overall impact, or the information it needs from other departments to establish the overall impact of wider Government support for small business.

In addition, the NAO is currently engaged on work in the following main areas:

- The DTI's funding of nationally significant scientific facilities via the Large Facilities Capital Fund.
- The Shareholder Executive was created in 2003. The NAO will examine whether the new arrangements for the management of publicly owned businesses are delivering the anticipated improvements.

Disclosure of Audit Information

- So far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware, and
- The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary
17 July 2006

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department of Trade and Industry to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- (a). Observe the Accounts Direction issued by HM Treasury including 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 FReM* have been followed, and disclose and explain any material departures in the accounts; and
- (d). Prepare the accounts on a going concern basis.

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

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Department of Trade & Industry's policies, aims and objectives, 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 started in post during the accounting period for the 2005-06 Statement on Internal Control. My predecessor, Chairman of the Audit Committee and Head of Internal Audit advised me about the control environment that operated in the Department on my arrival.

The Department's purpose is "Creating the conditions for business success: and helping the UK respond to the challenges of globalisation". Following a refresh of the Department's corporate governance arrangements in March 2006, I am advised and supported in the pursuit of our purpose by:

- The Department's Strategy Board. This is chaired by the Secretary of State and includes all DTI Ministers, all Management Board Members and four Independent Board Members. The Strategy Board meets three times a year to advise the Secretary of State on the strategic direction of the Department.
- The Department's Management Board (formerly known as the Executive Board) which I chair, comprises the Department's Directors General; Chief Executive UKTI; Director of Strategy, Director of Finance and four Independent Board Members. The Board meets monthly and sets the Department's strategic aims, agrees the business plan, ensures resources are in place to deliver the Department's objectives and monitors performance and the management of risk against those objectives.
- The following 3 Committees whose governance work supports the role of the Management Board:
 - Audit and Risk Committee (formerly known as the Audit Committee);
 - Executive Committee (formerly known as the Permanent Secretary's Committee); and
 - Resources Committee.
- The Secretariat who advise the boards and the committees as to their responsibilities, manage agendas, take minutes, follow up on decisions and action points.
- Prior to the refresh of the corporate governance arrangements, the following 2 committees also supported the Management Board:
 - Performance Monitoring Committee; and
 - Investment Committee.
- The Performance Monitoring Committee has now been replaced by the Delivery Challenge Group, an advisory committee outside the formal corporate governance structure, which advises the Board on Performance Delivery Issues. The Investment Committee has been disbanded.

I work with Ministers and DTI top management through the Strategy Board, Management Board, other meetings and correspondence. I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent DTI 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 been in place in the Department of Trade and Industry for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Management Board continues to take a lead in embedding risk management in the organisation. The Board has identified the key external and internal risks facing the Department and reviews progress in managing these risks each month. Directors General may also escalate emerging risks to the attention of the Board and this has resulted in changes to the key risks facing the Department being made in-year.

The Management Board has also endorsed and agreed to own an action plan to further embed good risk management practice within the Department's processes and systems, and to support Innovation through well managed risk taking. Work to establish this position will focus on the areas identified by the Department's last risk management self assessment and on the areas recognised by the Permanent Secretary's Management Group Sub-Committee on risk as being in need of improvement across Whitehall more generally. The Management Board has also committed to further consider the quantification and communication of risk appetite building on the work already done at Management Group level.

Guidance is available to all staff on risk management through the Risk Management Intranet site. In addition to a risk management policy, specific guidance is available on undertaking risk self assessment which includes guidance on applying risk management as an integral part of the Department's business planning process. Risk management workshops are available to all staff and practical guidance on its application has been incorporated into a wide range of DTI training courses. These courses cover all ranges of staff in the Department and are tailored to be appropriate to their authority and duties. During 2006-07, the Department intends to revise the content of management courses to fully reflect current risk management thinking.

The Department has also sought to integrate and embed risk management within individual performance management and personal development processes. This resulted in a revision to the Personal Achievement Plan template for 2005-06, which incorporated risk management within it. In 2006-07, the guidance supporting the Department's staff appraisal system will include specific reference to management of risk and opportunities.

The risk and control framework

The risk management framework for the Department operates through the initial identification of risks, as part of the business planning process, that threaten achievement of the Department's objectives. These risks are then evaluated in terms of impact and probability. Consideration is then given to the actions required to effectively manage each risk. This process establishes the level of residual risk against which the Department is exposed which is monitored over time.

Ownership for each risk is assigned to a named individual. Assurance that risk mitigation activities are appropriate is obtained through regular management reviews and Internal Audits of the key activities undertaken in the Department. In order to further embed best practice in risk handling and to ensure a consistent interpretation of the acceptable extent of residual risk, the Department is seeking to quantify and communicate its risk appetite across the organisation.

Throughout 2005-06 the Department's Risk Support Team has continued to work with colleagues to embed risk identification and assessment into the early stages of key decision making processes such as business planning and performance management, policy-making and project management. Furthermore, the Risk Support Team has worked in partnership with the CSR07 & SR2004 Efficiency Delivery Programme project teams to embed risk management within their activities. The Risk Support Team has also undertaken risk workshops with some of our Arms Length Bodies to consider jointly the risks we face around delivery and to identify appropriate mitigating actions.

Review of effectiveness

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

The effectiveness of the system of internal control is reviewed by my Directors General who each provides me with a Statement on Risk Management, Internal Control & Corporate Governance Representation for their Group informed by returns or opinions they themselves received from their Heads of Management Units. The Chairman of the Audit & Risk Committee and the Director of Internal Audit reviews each Statement & Representation with the relevant Director General and has discussed the key findings with me.

The Department's Agencies and consolidated NDPBs also conduct a review of the effectiveness of internal control in preparing a Statement on Internal Control for their Annual Accounts. A similar process is applied to that in the Department and the signed statements from each Chief Executive form part of the Department's overall assurance on internal control.

The Department also has arrangements, tailored to each particular situation, for monitoring those sponsored bodies, which are not consolidated into the Departmental Resource Accounts but where these bodies participate in the delivery of DTI objectives. Monitoring arrangements are in place as needed for other bodies where the DTI has lead policy within Government.

The Audit & Risk Committee provides independent advice on internal control issues and the progress being made in embedding risk management within the organisation. The Audit & Risk Committee advises on the Internal Audit work programme. I attend most meetings of the Committee and maintain a regular dialogue with the Chairman. The Chairman also sits as an Independent Board Member on the Management Board.

Internal Audit operates to requirements defined in the Government Internal Audit Standards. Their audit programme is focused around the Department's key risks and they submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

There were no significant internal control issues during the course of 2005-06. Where weaknesses in the control environment were identified, action to strengthen control has been taken or is planned.

The 2004-05 review of the effectiveness of internal control highlighted some control issues where further improvement was required. The following progress has been made:

- The Department has continued to develop its processes for prioritising its activities. This has enabled the Department to present to Ministers during 2005-06 a range of expenditure options against a background of tight resource constraint;
- The Department has also identified new and emerging priorities impacting on the work of the Department and has taken steps to transfer resources to meet these additional pressures during 2006-07;
- The Department has continued to work with partners to develop a shared approach to managing risk and is also developing an assurance framework for Arm Length Bodies. The aim is to provide greater assurance to the Audit & Risk Committee and myself that appropriate operational and risk management processes are in place;
- The Department has continued to strengthen processes within key decision-making activities such as business planning and policy making that ensures risk is considered before policy decisions are taken.

The awareness and application of risk management continues to improve across the Department. Our review of the effectiveness of internal control did, however, highlight a number of priority areas where further improvement will be pursued during 2006-07. These are as follows:

- The need to continue to improve our ability to prioritise and allocate resource effectively given the tight resource constraint that the Department is currently under;
- Against the background of reductions in headcount, the need to do more to manage the Department's skills base to ensure the optimum use of the talent and experience of our staff;
- The need to continue to raise the maturity of the Department's risk management capability and ensure the further embedding of good practice within key management processes;
- The need to continue to develop our horizon scanning to identify significant risks that might impact on the Department in the future;
- The need for further work to ensure the Department's sponsorship arrangements for Arms Length Bodies is appropriate in its rigour, consistently applied and leads to early escalation of key risks that might impact on the Department.

Other Matters Relevant to My Statement

Investigations by the Police and the Serious Fraud Office into allegations of fraud in connection with the Coal Health Compensation Schemes found that no fraud had been perpetrated against the DTI. An external review into the integrity of the management of the schemes by the DTI found the arrangement to be generally sound although some significant lessons could be learned about how the schemes were first put into operation. No major changes were needed to improve the running of the schemes and the Department is working on implementing the recommendations contained in the report.

There are no significant internal control problems in the Department's Agencies and NDPBs that impact on the Department's Resource Accounts.

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary
17 July 2006

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Department of Trade and Industry 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 37 to 40 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 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion:

- The financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
18 July 2006

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

	Note	Estimate			Outturn			2005-06	2004-05
		Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total	Net total outturn compared with estimate: saving/ (excess)	Net Total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources RfR 1 Trade and Industry Programme	2	10,864,573	(2,905,296)	7,959,277	5,792,928	(2,905,296)	2,887,632	5,071,645	1,391,575
RfR 2 Science	2	3,145,182	(5,067)	3,140,115	3,052,312	(4,868)	3,047,444	92,671	2,463,566
Total resources	2	<u>14,009,755</u>	<u>(2,910,363)</u>	<u>11,099,392</u>	<u>8,845,240</u>	<u>(2,910,164)</u>	<u>5,935,076</u>	<u>5,164,316</u>	<u>3,855,141</u>
Non-operating cost A in A	7			<u>34,582,803</u>			<u>15,246,009</u>	<u>19,336,794</u>	<u>8,882,930</u>

Net cash requirement 2005-06

	Note	Estimate		Outturn		2005-06	2004-05
		£000	£000	£000	£000	Net total outturn compared with Estimate: saving/ (excess)	Outturn
		£000	£000	£000	£000	£000	£000
Net cash requirement	4	<u>8,144,311</u>		<u>7,213,347</u>		930,964	<u>5,947,723</u>

Summary of income payable to 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		Outturn 2005-06	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000	£000	£000	£000
Total	5	<u>611,325</u>	<u><i>611,325</i></u>	<u>1,992,059</u>	<u><i>1,951,346</i></u>

Further detail and explanation of the variation between Estimate and Outturn are given in Note 2 and in the Financial Review on page 11.

Operating Cost Statement

for the year ended 31 March 2006

	Note	Core Department			2005-06 Consolidated			2004-05	
		Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	Core Department	Consolidated
		£000	£000	£000	£000	£000	£000	£000	£000
Administration Costs									
Staff Costs	9	174,859		193,539			177,084	195,283	
Other Administration Costs	10		146,973		159,168		165,910	186,514	
Operating Income	12					(6,301)	(5,095)	(14,483)	
Programme Costs									
Request for Resources 1									
Trade and Industry Programmes									
Staff costs	9	3,813		106,410			9,143	106,956	
Programme costs	11		5,585,813		5,623,720		2,974,504	2,982,121	
Income	12					(3,384,283)	(1,809,135)	(1,880,741)	
Request for Resources 2									
Science									
Staff costs	9	-		-			-	-	
Expenditure	11		3,044,306		3,044,306		2,445,012	2,445,012	
Income	12					(5,475)	(589)	(589)	
Totals		178,672	8,777,092	(3,277,375)	299,949	8,827,194	(3,396,059)	3,956,834	4,020,073
Net Operating Cost	3, 13			5,678,389		5,731,084	3,956,834	4,020,073	

All income and expenditure is derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

	2005-06		2004-05	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Net gain/(loss) on revaluation of tangible fixed assets	(1,090)	(846)	490	747
Net gain/(loss) on revaluation of intangible fixed assets	-	-	-	-
Net gain/(loss) on revaluation of investments	557,291	557,291	107,127	107,127
Recognised gains and losses for the financial year	556,201	556,445	107,617	107,874

There are no prior period adjustments that need to be reflected in the Statement of Recognised Gains and Losses.

The notes on pages 48 to 96 form part of these accounts.

Balance Sheet

as at 31 March 2006

		2005-06		2004-05	
	Note	Core Department £000	Consolidated £000	Core Department £000	Consolidated £000
Fixed Assets					
Tangible assets	14	169,379	195,824	155,729	176,630
Intangible assets	15	–	1,293	–	698
Investments	16	4,536,732	4,536,733	3,682,323	3,682,323
			4,706,111	4,733,850	3,859,651
Debtors (> 1 Year)	18	8,971	–	3,838,052	226
Current Assets					
Stocks	17	2,588	2,672	2,125	2,179
Debtors (< 1 Year)	18	678,994	632,008	306,840	302,727
Investments	19	5,297,451	5,297,451	2,037,194	2,037,194
Cash at bank and in hand	20	510,977	553,750	454,480	473,265
		6,490,010	6,485,881	2,800,639	2,815,365
Less: Creditors (< 1 Year)	21	5,014,336	5,052,970	900,116	977,045
Net Current Assets		1,475,674	1,432,911	1,900,523	1,838,320
Total Assets less Current Liabilities		6,190,756	6,166,761	5,738,801	5,698,197
Less: Creditors (> 1 Year)	21	1,094,539	1,095,402	530,313	574,159
Less: Provisions for Liabilities and charges					
Coal	22	2,308,958	2,308,958	3,467,287	3,467,285
Nuclear	23	2,574,949	2,574,949	14,079,618	14,079,618
Other	24	370,122	380,729	288,009	292,061
		5,254,029	5,264,636	17,834,914	17,838,964
Total Net Liabilities		(157,812)	(193,277)	(12,626,426)	(12,714,926)
Taxpayer's Equity					
General fund	25	(3,337,351)	(3,375,456)	(15,818,373)	(15,909,459)
Revaluation reserves	26	3,179,539	3,182,179	3,191,947	3,194,533
		(157,812)	(193,277)	(12,626,426)	(12,714,926)

These accounts were approved on 17 July 2006

Sir Brian Bender KCB

Principal Accounting Officer and Permanent Secretary

The notes on pages 48 to 96 form part of these accounts.

Consolidated Cash Flow Statement

For year ended 31 March 2006

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net cash outflow from operating activities	27.1	(6,850,164)	(5,442,789)
Capital expenditure and financial investment	27.2	97,942	(487,832)
Receipts due to Consolidated Fund which are outside the scope of the Department's activities	5	1,490,220	601,589
Payments of amounts due to the Consolidated Fund		(1,335,414)	(588,085)
Financing	27.4	<u>6,677,430</u>	<u>5,914,089</u>
Increase/(decrease) in cash in the period	27.5	<u>80,014</u>	<u>(3,028)</u>

The increase in cash comprises the movement in the cash note and the movement in the overdraft disclosed in the creditor note 21.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2006

The Department's aim is to raise the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. In the 2005-06 year an additional objective was added for the DTI therefore the 2004-05 numbers have been restated. Resources consumed by Departmental Objectives in support of that aim are shown below:

Aim: to increase competitiveness and scientific excellence in order to generate higher levels of sustainable growth and productivity in a modern economy.

	Gross	2005-06	Net	Gross	Restated	Net
	<u>£000</u>	<u>Income</u>	<u>£000</u>	<u>£000</u>	<u>2004-05</u>	<u>£000</u>
		<u>£000</u>			<u>Income</u>	
					<u>£000</u>	<u>£000</u>
Objectives:						
Supporting successful businesses	3,371,145	(73,000)	3,298,145	2,755,590	(37,673)	2,717,917
Promoting world-class science and innovation	2,647,549	(1,740,113)	907,436	2,080,208	(1,638,097)	442,111
Ensuring fair markets	531,409	(220,387)	311,022	485,141	(184,285)	300,856
Secure, sustainable, affordable energy	2,577,040	(1,362,559)	1,214,481	594,947	(35,758)	559,189
Net Operating Cost	9,127,143	(3,396,059)	5,731,084	5,915,886	(1,895,813)	4,020,073

The notes on pages 48 to 96 form part of these accounts.

NOTES TO THE 2005-06 RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

These 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 follows 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 purposes of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of certain fixed and current assets, as described in paragraphs 1.3, 1.4, 1.5 and 1.6.

1.2 Basis of consolidation

These accounts comprise a consolidation of the core Department and those entities which fall within the departmental boundary as defined in the FReM (chapter 1.5), issued by HM Treasury and includes non-voted expenditure in relation to the Redundancy Payments Scheme. Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the departmental boundary is given in the Annual Report page 3.

1.3 Tangible fixed assets

Title to freehold land and buildings shown in the accounts is held as follows:

- i. Property on the departmental estate, title to which is held by the Department;
- ii. Property held by the Office of the Deputy Prime Minister in the name of the Secretary of State.

Freehold land and buildings are re-stated at current cost using professional valuations every five years and appropriate indices in intervening years. Other tangible assets have been stated at current cost using appropriate indices. The core Department does not index any leasehold improvements.

The core Department's capitalisation threshold is £1,000, except in the cases of furniture, where all expenditure in one year is pooled and capitalised, and IT hardware where all expenditure is capitalised. This also includes heritage assets. The thresholds in the consolidated bodies range from £1,000 to £3,000.

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets in the accounts of some of the Department's consolidating bodies. These are revalued each year using relevant published indices. Software licences are amortised over the shorter of the term of the licence and the useful economic life. The useful economic life is usually between 5 to 12 years.

1.5 Depreciation

Freehold land is not depreciated.

The Department has a number of non-operational heritage assets held for historical and cultural association alone and these have been recorded in the Register of Assets at nil book value and are therefore not subject to depreciation.

Assets under construction are not depreciated until the asset is brought into use by the Department.

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives, after allowance for residual value. Useful lives are as follows:

Freehold buildings	50 years or estimated useful life if shorter
Historical leasehold land and buildings	Residual Term of the Lease
Leasehold improvements	Shorter of estimated remaining useful life or outstanding term of lease
Office machinery and equipment	5 years
Computer equipment	3–10 years
Scientific equipment	10–50 years
Telecommunication equipment	5–10 years
Furniture, fixtures and fittings	7 years
Plant and machinery	7–10 years
Motor vehicles	2–10 years
Antique furniture	Shorter of estimated remaining useful life or 50 years

For furniture, fixtures and fittings, an asset pool is maintained. Replacements on a one-to-one basis for assets in the pool are charged direct to the Operating Cost Statement in the year of replacement. Major enhancements or additions to the pool are capitalised as assets.

The Department also has operational heritage assets, which are, listed buildings used for operational purposes. They are valued on commercial basis and depreciated in the same way as other assets of that general type. i.e. buildings.

1.6 Investments

Fixed asset investments include the Department's entitlement to investment reserves in the British Coal Staff Superannuation Scheme (BCSSS) and the Mineworkers' Pension Scheme (MPS). These are held at market value advised by Government Actuary's Department (GAD). Fixed asset investments in shares and Public Dividend Capital (PDC) are stated at historical cost, less any provision for impairment.

Launch Investment is reviewed annually at a management valuation based on the discounted value of future income streams. Where the valuation exceeds historical cost, increases in valuation are taken to the revaluation reserve and are released to the General Fund as investments are realised. Any permanent diminution in value is written off against any previous upward revaluations and then to the Operating Cost Statement. The Government's standard discount rate of 3.5% is applied.

Other investments are shown at market value at the balance sheet date, unless this cannot be readily ascertained, in which case they are stated at historical cost, less any provision for impairment.

Current asset investments are stated at market value at the balance sheet date.

1.7 Stocks and work in progress

Stocks and work in progress are valued as follows:

- Stocks of finished goods and goods for resale are valued at cost or, where materially different, current replacement cost. A net realisable valuation is used only when they either cannot or will not be used;
- Work in progress is valued at the lower of cost and net realisable value.

1.8 Provisions

In accordance with FRS12, the Department makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events exists), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, the Department discounts the provision to its present value using a discount rate of 2.2%, the Government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels. The change in price levels is calculated using the HM Treasury's annual GDP deflator or, where it is available, the relevant actual change in prices rate.

1.9 Research and development

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

1.10 Operating income

Operating income is income that relates directly to the operating activities of the Department and agencies. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers and public sector repayment work. It also includes other income such as that from investments. It includes both income appropriated-in-aid and income collected by the Department on behalf of HM Treasury on an agency basis and payable to the Consolidated Fund. This income is known as Consolidated Fund Extra Receipts (CFERs).

The Department is required to identify those CFERs that are negative public expenditure (amounts used to reduce the amount of expenditure the Department would otherwise have to spend) and those revenue CFERs that relate to the recovery of costs recorded in the Operating Cost Statement, or to returns on investments. These types of CFERs are credited to the Operating Cost Statement as income to the Department. The remaining CFERs are not included in the Department's Operating Cost Statement and are accounted for through the balance sheet accounts of cash and creditors.

1.11 Administration and programme expenditure and income

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Department, as defined under the administration cost-control regime, together with the associated operating income. Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the out-turn 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.

1.12 Grants payable

Grants payable are recognised in the period in which the grant recipient carries out the activity that creates an entitlement to grant. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Operating Cost Statement on the basis of estimates of claims not received and are included in accruals in the balance sheet.

1.13 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5% in real terms on all assets less liabilities, except for:

- Donated assets, and cash balances with the Office of the Paymaster General (OPG), where the charge is nil;
- The Department's investments in the trading funds (Companies House and the Patent Office) where the charge is equal to 3.5% of the trading fund's underlying net assets, and the public corporations (BNFL, British Shipbuilders and Royal Mail) where the charge is 8% of the public corporation's underlying net assets;
- Amounts due from, or due to be surrendered to, the Consolidated Fund, where the credit will be at a nil rate.

1.14 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the Operating Cost Statement.

1.15 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) as described at note 9. The defined benefit elements of the schemes are un-funded and are non-contributory except in respect of dependents' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Department recognises the contributions payable for the year.

1.16 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Civil Service Superannuation Vote. The amount provided in these accounts is shown gross of any such payments.

1.17 Taxation

The Department is exempt from income and corporation tax by way of its Crown exemption.

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- Irrecoverable VAT is charged to the Operating Cost Statement, and included under the heading relevant to the type of expenditure;
- Irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The net amount due to, or from, HM Customs and Excise in respect of VAT is included within debtors and creditors within the Consolidated Balance Sheet.

1.18 Statement of Parliamentary Supply and the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

The information contained in the Statement of Parliamentary Supply and the Consolidated Statement of Operating Costs by Departmental Aim and Objectives and associated notes are based on the Request for Resources information that forms part of the Parliamentary approval processes.

The Consolidated Statement of Operating Costs by Departmental Aim and Objectives reports expenditure and income for each of the Department's four objectives.

The costs comprise direct administration and programme costs derived from the relevant Departmental groups delivering the objectives, and an element of apportioned expenditure. The apportionments made to distribute the costs of the Department's enablers and central administration costs are based on the split of staff numbers of the Groups involved in delivery of the objectives.

1.19 Leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable where this fairly reflects the usage. Future payments, disclosed at note 29 'Commitments under Operating Leases', are not discounted.

The Department currently has no Finance leases. There is one long leasehold land, the Crown Estate.

1.20 Inter-Departmental transfers of functions: Restatement of prior year comparators

In accordance with the FReM, where functions are transferred between Government Departments, the results and cash flows of the combining entities are brought into account from the start of the financial year in which the transfer occurs. Prior-year comparative figures are re-stated to show the effect as if the transfer had occurred one year earlier.

1.21 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No. 1 (Revised), entitled 'How to Account for PFI Transactions' as required by the FReM. Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI 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. Where at the end of the PFI contract a property reverts to the Department, 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 the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI property is borne by the Department, 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.

1.22 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement;
- all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute or where material in the context of resource accounts), which are required by the FReM to be noted in the resource accounts.

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

In accordance with the FReM, the Department does not disclose any contingent liabilities of its non-departmental public bodies that arise in the normal course of business.

1.23 Third-party assets

The Department holds, as custodian or trustee, certain cash balances at commercial banks belonging to third parties. These are not recognised in the accounts since neither the Department nor Government more generally has a direct beneficial interest in them.

3. RECONCILIATION OF OUTTURN TO NET OPERATING COST AND AGAINST ADMINISTRATION BUDGET

3.1 Reconciliation of net resource outturn to net operating cost

		Outturn	Supply	2005-2006	2004-2005
	Note	<u>£000</u>	<u>Estimate</u>	Outturn	Outturn
		£000	£000	£000	£000
Net Resource Outturn	2	5,935,076	11,099,392	(5,164,316)	3,855,141
Non-supply income (CFERs)	5	(456,725)	(332,141)	(124,584)	(21,504)
Non-supply expenditure – NIF expenditure	25	252,733	223,809	28,924	186,436
NLF net funding*		–	–	–	–
BCSSS net funding*		–	–	–	–
Net operating cost		<u>5,731,084</u>	<u>10,991,060</u>	<u>(5,259,976)</u>	<u>4,020,073</u>
Net Funding*				<u>2005-06</u>	<u>2004-05</u>
				£000	£000
BCSSS income				(10,000)	(10,000)
BCSSS expenditure				10,000	10,000
Total				<u>–</u>	<u>–</u>
NLF loan income				(29,170)	(29,170)
NLF loan expenditure				29,170	29,170
Total				<u>–</u>	<u>–</u>

3.2 Outturn against final administration budget

	Budget	2005-2006	2004-2005
	<u>£000</u>	Outturn	Outturn
	£000	£000	£000
Gross Administration Budget	368,625	352,707	371,833
Income allowable against the Administration Budget	(5,019)	(6,301)	(4,519)
Net outturn against final Administration Budget	<u>363,606</u>	<u>346,406</u>	<u>367,314</u>

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	£000	£000
Resource Outturn	2	11,099,392	5,935,076	5,164,316
Capital				
Acquisition of fixed assets	14,15	51,608	40,678	10,930
Investments	27.3	35,032,183	15,107,389	19,924,794
Non operating A in A				
Proceeds of fixed asset disposals	7	(4,605)	(43)	(4,562)
Investments	7, 27.3	(34,578,198)	(15,245,966)	(19,332,232)
Accruals adjustments				
Non-cash items	10	(4,926,212)	(33,810)	(4,892,402)
Changes in working capital other than cash		(6,000)	549,718	(555,718)
Changes in creditors falling due after more than one year	21	–	(521,243)	521,243
Use of provision	22,23,24	1,476,143	1,381,548	94,595
Net cash requirement¹		8,144,311	7,213,347	930,964

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		Outturn 2005-06	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Operating income and receipts – excess A in A		–	–	389,444	389,444
Other operating income and receipts not classified as A in A	12	332,141	<i>61,438</i>	67,281	<i>71,682</i>
	25	332,141	<i>61,438</i>	456,725	<i>461,126</i>
Other non-operating income and receipts not classified as A in A		134,402	<i>134,402</i>	–	–
Other amounts collectable on behalf of the Consolidated Fund		144,782	<i>415,485</i>	1,535,334	<i>1,490,220</i>
Total income payable to the Consolidated Fund		611,325	611,325	1,992,059	1,951,346

A breakdown of the significant amounts of CFER income is as follows:

	2005-06	2004-05
	£ m	£ m
Coal pension surplus releases	441	328
Launch investment levies received	115	98
Petroleum licences	61	68
Universal banking contributions	38	34
Companies House late filing penalties	38	31
BNFL NLIP	700	–
OFCOM Wireless Telegraphy Act	76	49
Other	67	7
Total	1,536	615

¹ Detailed explanations of the variances in the Financial Review, see page 10.

6. RECONCILIATION OF INCOME RECORDED WITHIN THE OPERATING COST STATEMENT TO OPERATING INCOME PAYABLE TO THE CONSOLIDATED FUND

	Note	<u>2005-06</u> £000	<u>2004-05</u> £000
Operating income	12	(3,396,059)	(1,895,813)
Income outside of the supply process	12	29,170	29,170
Gross income		<u>(3,366,889)</u>	<u>(1,866,643)</u>
Less: Income authorised to be appropriated-in-aid		2,910,164	1,845,139
Operating income payable to the Consolidated Fund	5	<u>(456,725)</u>	<u>(21,504)</u>

7. NON-OPERATING INCOME

	<u>2005-06</u> £000	<u>2004-05</u> £000
Royal Mail PLC repayment of working capital loan	(15,197,774)	(8,848,360)
Proceeds on disposal of fixed assets	(43)	-
Other investment income	(19,704)	-
Launch investment	(30,972)	(29,728)
Movement in launch investment debtors	2,484	(4,842)
Non-operating income	<u>(15,246,009)</u>	<u>8,882,930</u>

8. NON-OPERATING INCOME NOT CLASSIFIED AS A in A

	<u>2005-06</u> Income £000	<u>2004-05</u> Receipts £000
There is no non-operating income not classified as A in A for 2005-06	-	-
	-	-

9. STAFF NUMBERS AND RELATED COSTS

Staff costs comprise:

	<u>Total</u> £000	<u>Permanently employed staff</u> £000	<u>Others</u> £000	<u>Ministers</u> £000	<u>2005-06</u> Special advisers £000	<u>2004-05</u> Total £000
Wages and salaries	236,906	214,822	21,636	210	238	246,848
Social security costs	19,429	17,794	1,592	26	17	22,115
Other pension costs	44,878	40,956	3,917	5	-	34,876
Total	301,213	273,572	27,145	241	255	303,839
Less recoveries in respect of outward secondments	(1,264)	-	(1,264)	-	-	(1,600)
Total net costs	299,949	273,572	25,881	241	255	302,239
Of which:						
Core Department	178,672	168,817	8,359	241	255	186,227

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department of Trade and Industry is unable to identify its share of the underlying 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).

For 2005-06, employers' contributions of £44,821,635 were payable to the PCSPS (2004-05: £34,876,000) at one of four rates in the range 16.2 to 24.6 per cent (2004-05: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005-06 and will remain unchanged until 2008-09. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £56,024 (2004-05: £110,000) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2004-05: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent (2004-05: 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. There were £5,747 of contributions due to the partnership pension providers at the balance sheet date, but there were no contributions prepaid at that date.

In 2005-06, 5 persons (2004-05: 4 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £26,093 (2004-05: £5,821).

Average number of persons employed

The average number of whole-time equivalent persons employed during the year 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.

	<u>Total</u> number	<u>Permanent staff</u> number	<u>Others</u> number	<u>Ministers</u> number	<u>2005-06 Special advisers</u> number	<u>2004-05 Total</u> number
Objective						
Supporting						
Successful Business	2,332.9	2,138.7	190.2	3.3	0.7	2,788.0
Promoting world-class						
Science and Innovation	568.0	550.7	15.5	1.2	0.6	587.5
Ensuring Fair Markets*	4,857.8	4,159.1	695.7	2.3	0.7	5,500.5
Secure, sustainable, affordable energy*	885.3	799.1	84.4	1.2	0.6	-
Total	<u>8,644.0</u>	<u>7,647.6</u>	<u>985.8</u>	<u>8.0</u>	<u>2.6</u>	<u>8,876.0</u>
Of which:						
Core Department	<u>4,402.0</u>	<u>4,056.6</u>	<u>334.8</u>	<u>8.0</u>	<u>2.6</u>	<u>5,019</u>

Note:

*It is not possible to restate the prior years staff numbers over the fourth 2005-06 objective, as the now secure, sustainable, affordable energy was created from a reorganisation of the 2004-05 supporting successful business and ensuring fair markets objective.

9.2 Staff Debtors

At 31 March 2006 1,774 (31 March 2005: 1,523) employees of the Department and its Agencies were in receipt of advances of travel and housing loans, repayable to the employer. The staff debtor amount is disclosed at note 18.

10. OTHER ADMINISTRATION COSTS

	Note	2005-06		2004-05	
		Core Department	Consolidated	Core Department	Consolidated
		£000	£000	£000	£000
Rental under operating leases – P & M		1,704	2,308	1,785	2,453
– Other		34,706	37,867	34,226	36,520
Interest Charges		4	4	6	6
PFI service charges		25,164	25,164	24,723	24,723
Research and Development Expenditure		45	45	4	4
Travel & Subsistence		9,907	10,642	10,133	10,577
IT support		12,949	15,400	10,290	11,103
Training and other staff costs		11,347	11,807	11,182	11,242
Professional Services		15,599	14,760	14,117	13,211
Accommodation		19,555	22,578	20,520	22,995
Other		5,148	6,725	5,562	17,584
		136,128	147,300	132,548	150,418
Non-Cash Items:					
Depreciation		4,889	5,950	7,586	8,529
Revaluation/Impairment		47	47	1,052	1,077
Profit on disposal of fixed assets		(47)	(43)	(38)	(38)
Loss on disposal of fixed assets		1,554	1,577	–	78
Cost of capital charges		4,728	4,893	4,501	4,455
Auditors' remuneration and expenses	(a)	242	282	205	279
Provision for bad debt		(10,637)	(10,663)	(8,058)	(8,041)
Provision provided for in year	22,23,24	7,936	7,691	27,437	27,463
Unwinding of discount on provisions	22,23,24	904	905	677	677
Change in discount rate	22,23,24	1,229	1,229	–	–
Other Agency notional costs		–	–	–	1,617
Total non-cash		10,845	11,868	33,362	36,096
Total		146,973	159,168	165,910	186,514

Notes:

(a) The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work.

(b) Administration costs do not include the costs of ACAS or INSS. These agency costs are recorded as programme expenditure and hence are excluded from the administration budget regime.

10.1 Non-cash costs summary:

The total for non-cash costs in Note 10 (other administration costs) and Note 11 (programme costs) is as follows:

	Note	2005-06		2004-05	
		Core Department	Consolidated	Core Department	Consolidated
		£000	£000	£000	£000
Auditors' fees		242	314	205	279
Depreciation/amortisation		7,871	11,777	7,586	11,161
Loss/(profit) on the disposal of fixed assets		1,507	1,562	(38)	74
Revaluation/impairments		25,064	25,154	57,878	58,117
Bad debt provision movement		(10,637)	(10,663)	(8,058)	(7,868)
Specific bad debt write off		5,476	15,555	–	–
Cost of capital charge		(362,357)	(361,483)	(551,541)	(551,389)
Other agency notional costs		–	–	–	1,617
Launch investments		(57,807)	(57,807)	(74,473)	(74,473)
Provisions		401,740	409,401	405,745	405,814
Total	4, 27.1	11,099	33,810	(162,696)	(156,668)

11. PROGRAMME COSTS

	Note	2005-06		2004-05	
		Core Department	Consolidated	Core Department	Consolidated
		£000	£000	£000	£000
Grants in aid		6,633,406	6,584,501	3,718,259	3,670,854
Other grants		1,221,661	1,221,661	1,108,358	1,108,358
Interest on NLF loan on-lent to Royal Mail Holdings plc		29,170	29,170	29,170	29,170
PFI service charges		–	4,491	–	4,722
Net gain on foreign exchange		(252)	(252)	(42)	(42)
Rental under operating leases – P & M		5	78	25	457
Research and development expenditure		111,411	108,711	143,455	140,727
Redundancy Payments Service expenditure – National Insurance Fund		252,733	252,733	186,436	186,436
Other expenditure		381,731	444,941	429,913	479,167
Auditors' remuneration and expenses		–	50	–	48
		8,629,865	8,646,084	5,615,574	5,619,897
Non-Cash Items:					
Depreciation – tangible assets		2,982	5,484	–	2,358
Depreciation – intangible assets		–	343	–	274
Revaluation/impairment		4,951	5,041	–	214
Loss on disposal of fixed assets		–	28	–	34
Downward revaluation of British Shipbuilder investment		–	–	21,000	21,000
Write down of investments		20,066	20,066	11,662	11,662
Write down of launch investment		–	–	24,164	24,164
Bad debt provision – movement in provision		–	–	–	173
Specific bad debt write off		5,476	15,555	–	–
Cost of capital charges		(367,085)	(366,376)	(556,042)	(555,844)
Auditors' remuneration and expenses		–	32	–	–
Provision provided for in year	22,23,24	(136,907)	(129,793)	(282,473)	(282,430)
Unwinding of discount on provisions	22,23,24	144,058	144,849	660,104	660,104
Change in discount rate	22,23,24	384,520	384,520	–	–
Amortisation of 1 year's discount (launch investments)	16	(57,807)	(57,807)	(74,473)	(74,473)
		254	21,942	(196,058)	(192,764)
Total		8,630,119	8,668,026	5,419,516	5,427,133

12. INCOME

	RfR1	RfR2	2005-06 Total	RfR1	RfR2	2004-05 Total
	£000	£000	£000	£000	£000	£000
Administration income:						
Profit on disposal of assets	-	-	-	-	-	-
Allowable within admin cost limit	209	-	209	39	-	39
Other fees and charges external customers	6,092	-	6,092	14,444	-	14,444
Other fees and charges other departments	-	-	-	-	-	-
Total administration income	6,301	-	6,301	14,483	-	14,483
Programme income:						
Interest receivable from within the departmental boundary	-	-	-	-	-	-
Interest receivable from other entities	-	-	-	-	-	-
Dividend and interest from Trading Funds and Nationalised Industries	40,000	-	40,000	30,000	-	30,000
Funding from OGDs for RDA/LDA	1,629,793	-	1,629,793	1,560,603	-	1,560,603
Other OGD income	13,081	4,868	17,949	8,675	-	8,675
EU funding	1,200	-	1,200	39	-	39
NDA	1,333,000	-	1,333,000	-	-	-
Other	271,365	-	271,365	238,069	263	238,332
	3,288,439	4,868	3,293,307	1,837,386	263	1,837,649
Income outside the supply process						
Interest on NLF loan on-lent to Royal Mail Holdings plc	29,170	-	29,170	29,170	-	29,170
Consolidated Fund Extra Receipts	66,674	607	67,281	14,185	326	14,511
Total programme income	3,384,283	5,475	3,389,758	1,880,741	589	1,881,330
Total operating income	3,390,584	5,475	3,396,059	1,895,224	589	1,895,813

13. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	Estimate	2005-06 Outturn	2004-05 Outturn
	£000	£000	£000
Spending body:			
Core Department	10,855,133	5,584,626	3,886,716
Advisory, Conciliation and Arbitration Service	50,019	57,306	46,231
Employment Tribunal Service	71,949	69,023	68,769
Insolvency Service	1,950	7,488	498
National Weights and Measures Laboratory	214	2,285	(177)
Small Business Service	11,795	10,356	18,036
Net Operating Cost	10,991,060	5,731,084	4,020,073

14. TANGIBLE FIXED ASSETS

Cost or Valuation	Land	Buildings	Leasehold Improve- ments	Office Machinery	Computer Equipment	Scientific Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Plant and Machinery Construction	Assets under Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£'000
At 1 April 2005	10,941	115,819	34,865	1,622	9,883	1,327	21,092	43	2,070	222,261
Additions	-	4	5,838	82	3,143	156	910	-	45	28,764
Disposals	-	(130)	(1,974)	(198)	(936)	(73)	(2,626)	-	(108)	(6,045)
Transfers	-	14,530	9,178	-	4,056	-	-	-	-	(28,541)
Revaluation	962	(15,425)	490	(26)	(1,304)	44	378	3	34	(777)
At 31 March 2006	11,903	114,798	48,397	1,480	14,842	1,454	19,754	46	2,041	238,953
Depreciation										
At 1 April 2005	80	13,937	8,778	1,298	6,458	706	12,966	36	1,372	45,631
Charged in year	13	3,054	4,393	135	1,284	53	2,302	3	197	11,434
Disposals	-	(130)	(403)	(187)	(948)	(68)	(2,598)	-	(106)	(4,440)
Transfers	-	-	-	-	-	-	-	-	-	-
Revaluation	1	(8,616)	190	(21)	(1,117)	23	19	-	25	(9,496)
At 31 March 2006	94	8,245	12,958	1,225	5,677	714	12,689	39	1,488	43,129
Net book value at 31 March 2006	11,809	106,553	35,439	255	9,165	740	7,065	7	553	195,824
Net book value at 31 March 2005	10,861	101,882	26,087	324	3,425	621	8,126	7	698	176,630
Asset financing:										
Owned	11,809	106,553	35,439	255	9,165	740	7,065	7	553	195,824
On-balance sheet PFI	-	-	-	-	-	-	-	-	-	-
Net book value at 31 March 2006	11,809	106,553	35,439	255	9,165	740	7,065	7	553	195,824

Analysis of tangible fixed assets

The net book value of tangible fixed assets comprises:

	Land	Buildings	Leasehold improvements	Office Machinery	Computer Equipment	Scientific Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Plant and Machinery	Construction	Assets under	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£'000	£'000
Core department 2006	11,809	103,928	22,857	86	6,038	-	5,370	-	407	18,883	169,378	
Agencies 2006	-	2,625	12,582	169	3,127	740	1,695	7	146	5,355	26,446	
Core department 2005	10,861	99,106	16,040	154	1,294	-	6,113	-	535	21,626	155,729	
Agencies 2005	-	2,776	10,047	170	2,131	621	2,013	7	163	2,973	20,901	

The total additions during 2005-06, £38,942 shown above is broken down as follows:

	Note	£000
Fixed asset additions (cash) tangible assets	27.2	40,503
Movement in creditors	27.3	(1,561)
	14	38,942
Fixed asset additions (cash) Intangible assets	15	175
	27.3	39,117

14.1 Net book value of land and buildings comprises:

	31 March 2006		31 March 2005	
	Land	Buildings	Land	Buildings
	£000	£000	£000	£000
Freehold:	11,048	106,553	10,165	101,882
Long Leasehold:	761	–	696	–
Short Leasehold:	–	–	–	–
Total	11,809	106,553	10,861	101,882

DTI has the following freehold properties:

- The Core Store, which was revalued on 31 March 2003 by Donaldson's, independent Chartered Surveyors, on the basis of open market value without the benefit of planning consent. On 1 August 2005, The Core Store at 36 Gilmerton Road, Edinburgh, was leased to the British Geological Survey (BGS) for the sum of £1 per annum for a term of 10 years. BGS is a research centre wholly owned by the Natural Environment Research Council (NERC), which is funded by the Department through Grant-in-Aid.
- Wrest Park, which has been let on a 999 year lease and has an agreed nominal book value.
- The National Physical Laboratory (NPL) site at Teddington. The site includes a number of properties, which have been scheduled for demolition, pending the construction of the new NPL building. Accordingly, these properties have been included on the balance sheet at nil net book value. The land and building occupied by the National Weights and Measures Laboratory and British Maritime Technology were valued by Powis Hughes, independent Chartered Surveyors, in October 2003 on a basis of open market value.
- The NPL building was valued on 31 March 2005 by King Sturge. As at 31 March 2005 its value, on a depreciated replacement cost basis, was assessed to be £102.35m. It was necessary to incur additional costs, including commissioning costs, to make the building perform to the specifications in the original PFI project agreement. It was estimated that these would be £17m and accordingly a value at 31 March 2005 of £85.35m was therefore assigned. The net book value of the building as at 31 March 2006 is £90.3m (2004-05 £85.35m). It is estimated that the building will be substantially ready for full occupation by March 2007.
- The Employment Tribunals Service's freehold land and buildings were revalued on 31 March 2003 by Donaldson's, independent Chartered Surveyors, on the basis of existing use value.

All professional valuations have been made in accordance with Royal Institute of Chartered Surveyors guidance.

Other tangible assets have been revalued at 31 March 2006 by reference to appropriate current cost indices.

14.2 Heritage Assets**14.2.1 Operational Heritage Assets:**

The following listed buildings are used for operational purposes and have been valued on a commercial basis. They are included in the values for buildings, above.

- *At the National Physical Laboratory in Teddington:*
Bushy House, including The Clock House, the Conservatory and Garden Temple
- *Occupied by the Silsoe Research Institute* (part of the Biotechnology and Biological Sciences Research Council):
Wrest Park, Silsoe, Bedfordshire.
Wrest Park is recorded at a nominal value in the DTI's accounts. The full value is included in the balance sheet of the Biotechnology and Biological Sciences Research Council.
- *Used by the Employment Tribunals Service:*
Employment Appeals Tribunal Court buildings at 52-56 Melville St, Edinburgh

14.2.2 Non-Operational Heritage Assets:

The Department has a number of non-operational heritage assets held for historical and cultural association alone. These are recorded in the Register of Assets at nil book value, in accordance with guidance in HM Treasury's *Financial Reporting Manual*, which excludes museum collections, and other national archives existing at 31 March 2000 from the requirement of valuation.

The following non-operational heritage assets are located at the National Physical Laboratory (NPL) at Teddington:

- 'Newton's Apple Tree'
- National Physical Laboratory museum and archives, including some UK primary standard weights and measures

15. INTANGIBLE FIXED ASSETS

	Software licences	2005-06	2004-05
	£000	Total £000	Total £000
Cost or Valuation			
At 1 April 2005	1,546	1,546	1,174
Additions ¹	175	175	509
Disposals	(3)	(3)	(130)
Transfers	777	777	–
Revaluation	(39)	(39)	(7)
At 31 March 2006	2,456	2,456	1,546
Amortisation			
At 1 April 2005	848	848	427
Charged in year	343	343	287
Disposals	(3)	(3)	(117)
Transfers	–	–	–
Revaluation	(25)	(25)	251
At 31 March 2006	1,163	1,163	848
Net Book Value			
At 31 March 2006	1,293	1,293	698
At 31 March 2005	698	698	747

Analysis of intangible fixed assets

The net book value of intangible fixed assets comprises:

	Software licences	2005-06
	£000	Total £000
Core department 2006	–	–
Agencies 2006	1,293	1,293
Core department 2005		
Agencies 2005	698	698

¹ The total for additions during 2005-06, £175,000 was financed entirely by cashflows in year (see Consolidated Cash Flow statement).

16. FIXED ASSET INVESTMENTS

	Coal Pension Investment Reserve	Launch Investments	Ordinary Shares	Public Dividend Capital (PDC)	BNFL debenture	Other Investments and Loans	Core and Consolidated Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	1,425,593	1,651,615	109	22,214	–	582,792	3,682,323
Additions	–	–	–	–	575,000	29,615	604,615
Disposals	(12,776)	–	–	–	(24,847)	–	(37,623)
Repayments	–	–	–	–	–	(19,704)	(19,704)
Income	–	(146,490)	–	–	–	–	(146,490)
Revaluation	376,244	39,864	–	–	–	4,930	421,038
Amortisation	–	57,807	(9)	–	–	(25,224)	32,574
Balance at 31 March 2006	1,789,061	1,602,796	100	22,214	550,153	572,409	4,536,733

All investments are held at the Core Department.

16.1 BCSSS and MPS Investment Reserves

	Value at 1 April 2005	Additions	Disposals	Revaluation	Value at 31 March 2006
	£000	£000	£000	£000	£000
BCSSS Investment Reserve	938,187	–	(12,776)	244,458	1,169,869
MPS Investment Reserve	487,406	–	–	131,786	619,192
Total	1,425,593	–	(12,776)	376,244	1,789,061

The Department's investments in the Investment Reserves of the two pension schemes for the former employees of the British Coal Corporation, the Mineworkers Pension Scheme (MPS) and the British Coal Staff superannuation Scheme (BCSSS) are derived from the unallocated share of surplus attributed to British Coal at the privatisation of the industry in 1994. The Investment Reserve exists as sub-funds and are available to maintain the benefits of scheme members. To the extent the Investment Reserves are not required to meet deficits, they will be paid to the Department over a period of at least 25 years on the advice of each scheme's actuary.

The two schemes are subject to triennial actuarial valuations and work is in progress on these valuations for both schemes. The effective date of the valuations are 30 September 2005 for the MPS and 31 March 2006 for the BCSSS but the results of these valuations will not be available until later in the 2006-07 financial year and are not yet reflected in the 2005-06 accounts. Actuarial valuations are carried out by 'The Scheme Actuary', defined in the scheme provisions as the Government Actuary (GAD) and only the defined Actuary can undertake the scheme and fund valuations after consulting both the Trustees and the Guarantor on the actuarial assumptions to be used.

Interim figures between the triennial assessments are management valuations. The department has estimated the change in the valuation of the investments during 2005-06, based on statements provided by the Schemes and updated interim valuations provided by the Scheme Actuary (GAD) when these are provided.

The accounts of the two pension schemes can be obtained from Coal Pension Trustee Services, 1 Hussar Court, Hillsborough Barracks, Penistone Road, Sheffield, South Yorkshire, S6 2GZ.

16.2 Launch Investments

The Department provides specific support to the aerospace industry through Launch Investment. The Department regularly revises its forecasts of sales of the aircraft and engines covered by the Department's portfolio of Launch Investment contracts. These forecasts in turn determine forecasts of income and hence the value of the portfolio as a whole. The historic cost valuation of the investment portfolio at 31 March 2006 was £1,060 million (31 March 2005 £1,120 million). The asset value of the Launch Investment portfolio at 31 March 2006 remains considerably in excess of its historic value.

16.3 Ordinary Shares

	Value at 1 April 2005	Additions	Disposals	Revaluation	Value at 31 March 2006
	£000	£000	£000	£000	£000
Royal Mail Holdings plc shares	50	–	–	–	50
BNFL plc shares	59	–	–	(9)	50
Total	109	–	–	(9)	100

The Government owns 100% of the shares in Royal Mail Holdings plc. The Secretary of State for Trade and Industry owns 49,999 ordinary shares and the Treasury Solicitor holds one ordinary share. The secretary of State for Trade and Industry also owns one Special Share, relating to certain areas for which Special Shareholder consent is required, (see note 16.6). The ordinary shares are shown at historical cost less any provision for impairment.

The Government holds 50,000 ordinary shares in BNFL plc at a nominal value of £1 each. BNFL plc was set up to hold those parts of BNFL that did not pass to the Nuclear Decommissioning Authority (NDA), including, inter alia, British Nuclear Group Sellafield Limited (formerly British Nuclear Fuels). The shares in BNFL plc were originally accrued at a cost for £59,000 but were subsequently purchased for £50,000 in cash. The Secretary of State for Trade and Industry owns 49,999 ordinary shares and the Treasury Solicitor holds one ordinary share.

16.4 Public Dividend Capital (PDC)

	Value at 1 April 2005	Additions	Redemption	Revaluation	Value at 31 March 2006
	£000	£000	£000	£000	£000
British Shipbuilders	–	–	–	–	–
Companies House	15,889	–	–	–	15,889
Patent Office	6,325	–	–	–	6,325
Total	22,214	–	–	–	22,214

In the 2004-05 year the British Shipbuilders PDC was fully impaired to a nil value. The historical cost of £1,598,339,000 less provisions for full impairment of £1,598,339,000. This impairment has been subject to the parliamentary reporting process as required by Government Accounting rules.

16.5 Share of net assets and results of bodies outside the consolidation boundary

The Department is required to disclose, for each investment which represents an interest in a subsidiary undertaking, an associate or joint venture which falls outside the Departmental consolidation boundary, the Department's share of the net assets and results of those bodies. This information is summarised below.

	British Energy	NLF	British Ship- builders	Patent Office	Com- panies House	BNFL	Royal Mail plc	Nirex CLG
	£m	£m	£m	£m	£m	£m	£m	£m
Assets	5,978	985	13	98	66	25,209	5,285	3
Liabilities	(4,620)	(985)	(96)	(24)	(11)	(28,532)	(8,624)	(2)
Net Assets	1,358	–	(83)	74	55	(3,323)	(3,339)	1
Turnover	1,676	39	–	57	69	2,364	9,056	6
Surplus/profit (deficit/loss) for the year	410	(105)	(79)	8	5	(344)	395	–

Notes:

- British Energy information is from the British Energy's Group Plc's audited annual results for the period to 31 March 2006. In the 2005-06 year British Energy prepared their annual results using International Accounting Standards. For the purposes of this note, intra-company transactions and balances have not been cancelled. Therefore BE liabilities include amounts for historic contracted spent fuel costs, which are also recognised in these accounts and BE assets contain receivables

from the NLF and Government. The NLF is considered to be a 100% subsidiary of the Department and BE is a 64.63% quasi-subsubsidiary of the NLF and hence the Department. These percentages have been applied to the appropriate figures for each body to arrive at the disclosure above.

- Nuclear Liabilities Fund (NLF) information is extracted from their unaudited annual accounts for the year to 31 March 2006. In the 2005-06 year their accounts were completed using UK GAAP.
- British Shipbuilders information is derived from the 2004-05 unaudited annual accounts, as their 2005-06 information is not available. In the 2004-05 year their accounts were completed using UK GAAP.
- Patent Office and Companies House information is derived from their unaudited annual accounts for 2005-06. In the 2005-06 year their annual accounts are completed using Government Financial Reporting Manual.
- BNFL information is derived from their 2004-05 audited annual accounts, as their 2005-06 audited information is not available.
- On 1 April 2005 UK Nirex Ltd was acquired by a company limited by guarantee (CLG). The Secretary of State for Trade and Industry has become a member of this company – Nirex CLG Ltd was set up with no share capital and no share certificates as a holding company for UK Nirex Ltd, which has passed into public ownership. The DTI investment in the purchase of shares from the selling shareholders for UK Nirex Ltd was £100, with DEFRA providing £100 for the other 50% ownership. The DTI shares control of Nirex CLG Ltd on an equal basis with the one other member, the Secretary of State for the Environment, Food and Rural Affairs (DEFRA). The members can appoint Directors of UK Nirex Ltd and exercise control over this wholly owned subsidiary through an agreed Business Plan and Operational Guidelines, which accompany the Memorandum and Articles of Association of UK Nirex Ltd. The information disclosed is from Nirex CLG Ltd's unaudited annual results for the period to 31 March 2006. In the 2005-06 year Nirex CLG Ltd completed their annual accounts using UK GAAP.
- Royal Mail plc information is derived from their 2005-06 audited annual accounts. In the 2005-06 year their accounts were completed using International Financial Reporting Standards.

16.6 Special Shares

In addition, the Secretary of State holds one Special Share in each of the entities listed below. The list is a summary and does not purport to be a comprehensive record of the terms of each respective shareholding. Further details can be obtained from the annual report and financial statements of each body.

Body in which Share is held and type and value of share	Terms of Shareholding
Royal Mail Holdings plc £1 Special Rights Preference Share	<ul style="list-style-type: none"> ● Created in January 2001; ● It may be redeemed at any time by the shareholder; ● The consent of the shareholder is required for a number of things, including: <ul style="list-style-type: none"> – Appointing the Chairman of the company, and the remainder of the Board (after consulting the Chairman); – Setting (and approving any material changes in) the remuneration packages of the Directors; – Borrowing in excess of certain pre-set limits (as agreed with the Treasury). – Adopting and implementing the company's strategic plan; – Disposing of substantial assets of the business or any "relevant subsidiaries" or substantial parts of the business of such subsidiaries; – Voluntary winding-up of any subsidiary; – Varying certain of the company's articles of association, including the rights of the special shareholder.

Body in which Share is held and type and value of share	Terms of Shareholding
British Aerospace Plc £1 Special Rights Preference Share	<ul style="list-style-type: none"> ● Created in 1985 (but subsequently amended); ● No time limit; ● Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company; ● Requires a simple majority of the Board and the Chief Executive to be British; ● Requires any Executive Chairman to be British and, if both the Chairman and Deputy Chairman are non-executives, requires at least one of them to be British.
British Energy Group plc £1 Special Share, British Energy Holdings plc £1 Special Share, British Energy Generation Ltd £1 Special Share, and British Energy Ltd £1 Special Share	<ul style="list-style-type: none"> ● British Energy Group plc and British Energy Holdings plc Special Shares created on 13 January 2005; ● The Special Shares are held jointly by the Secretary of State for Trade and Industry and the Secretary of State for Scotland; ● The consent of the Special Shareholder, which can only be refused on grounds of national security, is required for: <ul style="list-style-type: none"> – anyone to purchase more than 15% of British Energy issued shares; and – the disposal of a nuclear power station by British Energy. ● British Energy Generation Ltd Special Share created in 1996 is held solely by the Secretary of State for the DTI. His consent is required for the disposal of any of the nuclear power stations owned by it; ● British Energy Limited (formerly British Energy plc) Special Share created in 1996 is held by the Secretaries of State for Trade and Industry and for Scotland. However the company has no significant assets or liabilities as a result of the restructuring scheme, which came into effect on 14 January 2005.
Nuclear Liabilities Fund Ltd. £1 Special Rights Redeemable Preference Share	<ul style="list-style-type: none"> ● Created in 1996; ● Secretary of State for Trade and Industry has a special 'A' share (there is also a 'B' share held by British Energy); ● Only with the consent of the special shareholder can: <ul style="list-style-type: none"> – any of the provisions in the Memo of Association or Articles of Association be changed; – the share capital or the rights attached thereto be altered; – the company create or issue share options; – the 'B' Special Shareholder or any of the Ordinary shareholders dispose or – transfer any of their rights in their shares; – the company pass a members voluntary winding-up resolution; – the company recommend, declare or pay a dividend; – the company create, issue or commit to give any loan capital; – the company issue a debenture; – the company change its accounting reference date.
Rolls Royce Group Plc £1 Special Rights Non-Voting Redeemable Preference Share	<ul style="list-style-type: none"> ● Created in 1987 (but subsequently amended); ● No time limit; ● Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company; ● Requires a simple majority of the Board, including the Chief Executive and any Executive Chairman, to be British; ● Allows the appointment of a non-British Non-Executive Chairman; ● Provides for a veto over the material disposal of assets; ● Provides for a veto of any voluntary winding up.

16.7 BNFL debenture

On 1 April 2005, BNFL issued a debenture for £575 million to the Secretary of State for Trade and Industry, under Schedule 6 of the Energy Act. The rate of interest is 7.5 per cent per annum and the final redemption date is 31 March 2012.

The debenture provides a mechanism for returning the proceeds from disposals from the BNFL Group to Government and to incentivise its management to maximize cash generation and reduce the outstanding amount of the debenture, so reducing the Group's interest payments.

16.8 Other investments and loans

	Value at 1 April 2005	Additions	Redemption	Revaluation	Impairment	Value at 31 March 2006
	£000	£000	£000	£000	£000	£000
Loans:						
Patent Office	2,162	–	(166)	–	–	1,996
Companies House	769	–	(385)	–	–	384
NLF Loans on Lent to Royal Mail	500,000	–	–	–	–	500,000
MG Rover Loan	–	6,500	(1,343)	–	(5,157)	–
Other	30,183	–	(17,810)	–	–	12,373
Investments:						
UK High Technology Fund	15,911	–	–	–	(282)	15,629
Regional Venture Capital Fund	25,190	15,063	–	–	(15,885)	24,368
Early Growth Fund	5,669	6,645	–	–	(2,633)	9,681
Phoenix Fund	2,908	1,407	–	4,930	(1,267)	7,978
Total	582,792	29,615	(19,704)	4,930	(25,224)	572,409

Loans to Patent Office, Companies House and Royal Mail disclosed above are valued at historical cost.

The investments held by the DTI in UK High Technology Fund, Regional Venture Capital Fund, Early Growth Fund and Phoenix Fund are shown at market value. Valuations are taken from the most recent set of annual accounts for each investment fund and updated with interim management valuations.

17. STOCKS AND WORK IN PROGRESS

	2005-06		2004-05	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Stock	2,588	2,672	2,125	2,179
Work in progress	-	-	-	-
Total	2,588	2,672	2,125	2,179

18. DEBTORS**18.1 Analysis by type**

	2005-06		2004-05	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	47,064	64,235	34,724	59,615
Other debtors	173,271	101,215	153,164	80,403
HM Customs & Excise (VAT)	14,780	17,006	21,879	23,670
CFER debtors	84,187	84,187	43,473	43,473
Staff debtors	1,539	2,473	1,883	2,788
<i>Total other debtors</i>	<i>273,777</i>	<i>204,881</i>	<i>220,399</i>	<i>150,334</i>
Prepayments and accrued income	101,807	106,546	51,717	92,778
Amounts due from the Consolidation Fund in respect of supply	256,346	256,346	-	-
	678,994	632,008	306,840	302,727
Amounts falling due after more than one year:				
Trade Debtors	8,971	-	1	1
Deposits and advances	-	-	225	225
	8,971	-	226	226
Total debtors as at 31 March 2006	687,965	632,008	307,066	302,953

18.2 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	278,943	95,705	-	-
Balances with local authorities	11	580	-	-
Balances with NHS trust	21	19	-	-
Balances with public corporations and trading funds	27,866	1,944	-	-
Subtotal: intra-government balances	306,841	98,248	-	-
Balances with bodies external to government	325,167	204,479	-	226
Total debtors at 31 March	632,008	302,727	-	226

19. CURRENT ASSET INVESTMENTS

	Coal Pensions Investment		Royal Mail Holdings PLC	BFNL NLIP	Total
	BCSSS Debtor	MPS Debtor	Post Office Ltd		
	£000	£000	£000	£000	£000
Balance at 1 April 2005	641,527	875,667	520,000	–	2,037,194
Additions	–	–	15,077,774	4,126,991	19,204,765
Disposals	–	–	(15,197,774)	(700,000)	(15,897,774)
Revaluation	124,809	(10,543)	–	279,000	393,266
Release of previous revaluation gain	(265,000)	(175,000)	–	–	(440,000)
Total	501,336	690,124	400,000	3,705,991	5,297,451

All investments are held in the Core Department.

19.1 BCSSS and MPS Debtors

In addition to the Fixed Asset Investment in the two pension schemes of the former employees of British Coal, as referred to at note 16.1, the Department is entitled to half of any surpluses declared by the two closed pension schemes on the basis of triennial actuarial valuations by the Schemes' actuary (the Government Actuary), which are accounted for as a current asset investment. Changes in the value of these surpluses as a result of the current actuarial valuation exercises will not be available until later in the 2006-07 financial year. The Department has estimated the change in the valuation of the investments during 2005-06, based on statements provided by the Schemes and updated interim valuations provided by the Scheme Actuary (GAD) when these are provided.

19.2 Royal Mail Group plc and Post Office Ltd

As explained on page 7 of the Annual Report to these Accounts, the Department has made available to Post Office Limited, through an agreement reached on 17 October 2003, a revolving loan facility based on commercial terms of up to £1.15 billion. This is to help the company fund its working capital requirements in light of the migration of state benefits payments to a system of direct payment and the loss of DWP pre-funding to POL, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and in full, from post office branches. Post Office Limited began utilising this facility on the 1 December 2003. The facility matures on the 31 March 2010 when any outstanding amounts will need to have been repaid. The outstanding balance on the 31 March 2006 was £400m. In the current year the loan facility is accounted for on a net basis rather than on a gross basis.

19.3 BNFL – Nuclear Liabilities Investment Portfolio (NLIP)

Following the transfer of the responsibility for the discharge of the nuclear liabilities to the NDA, BNFL ceased to have a beneficial interest in the Nuclear Liabilities Investment Portfolio and the Springfield Investments, known together as the NLIP. That interest passed to HM Government on 31 March 2006 and BNFL will continue to manage the NLIP on behalf of Government until the logistics of the transfer are finalised and agreed. At that point, the funds will be remitted to the Secretary of State for Trade and Industry and immediately returned to the Consolidated Fund. This investment has been recognised from 1 April 2005 for consistency with the FReM merger accounting requirements applied for transfers of functions in the public sector. The NLIP is shown at a market value of £4,127 million (from BNFL accounts) as at 1 April 2005.

The market valuation of the NLIP, as at 31 March 2006, was £3,706 million and this value is disclosed in the current assets investments and there is a matching Consolidated Fund creditor. This reflects the fact that it is expected that the portfolio is fully liquidated as at 31 March 2007 and all amounts transferred to the Consolidated Fund.

20. CASH AT BANK AND IN HAND

	Core Department	2005-06 Consolidated	Core Department	2004-05 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	454,480	473,265	459,424	476,293
Net change in cash balances	56,026	80,014	(4,944)	(3,028)
Balance at 31 March	<u>510,506</u>	<u>553,279</u>	<u>454,480</u>	<u>473,265</u>
The following balances at 31 March were held at:				
Offices of HM Paymaster General	505,385	518,130	430,543	432,724
Cash at hand and commercial banks	5,592	35,620	23,937	40,541
	<u>510,977</u>	<u>553,750</u>	<u>454,480</u>	<u>473,265</u>
Less commercial bank overdraft	(471)	(471)	-	-
Balance as at 31 March 2006	<u>510,506</u>	<u>553,279</u>	<u>454,480</u>	<u>473,265</u>

21. CREDITORS**21.1 Analysis by type**

	Core Department	2005-06 Consolidated	Core Department	2004-05 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts Falling Due within one Year:				
VAT	-	-	-	-
Other taxation and social security	86	953	41	464
Trade Creditors	34,738	34,833	27,243	27,880
Commercial bank overdraft	471	471	5	5
Other creditors	124,079	125,690	161,188	168,479
BNFL NLIP creditor	3,705,991	3,705,991	-	-
Accruals and deferred Income	255,158	291,219	194,901	263,479
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	-	279,570	279,570
CFER payable to the consolidated fund				
- Received	809,626	809,626	193,695	193,695
- Receivable	84,187	84,187	43,473	43,473
	<u>5,014,336</u>	<u>5,052,970</u>	<u>900,116</u>	<u>977,045</u>
Amounts Falling Due after more than one Year:				
Trade creditors	550,153	550,153	21,988	21,988
Accruals and deferred income	44,386	45,249	8,325	52,171
NLF Loans	500,000	500,000	500,000	500,000
Total Creditor as at 31 March 2006	<u>1,094,539</u>	<u>1,095,402</u>	<u>530,313</u>	<u>574,159</u>

21.2 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	1,046,276	741,223	–	–
Balances with local authorities	1,840	1,634	–	–
Balances with NHS trust	9	(1)	–	–
Balances with public corporations and trading funds	3,706,153	89	500,000	500,000
Subtotal: intra-government balances	4,754,278	742,945	500,000	500,000
Balances with bodies external to government	298,692	234,100	595,402	74,159
Total creditors as at 31 March 2006	5,052,970	977,045	1,095,402	574,159

22. Provisions for liabilities and charges – Coal

	Consolidated Department					Total
	Health-Related provisions			Non-Health provisions		
	COPD	VWF	Other	Con Fuel	Other	
£000	£000	£000	£000	£000	£000	
At 1 April 2005	2,001,810	595,503	449,932	338,759	81,281	3,467,285
Financing charges:						
Change in discount rate	42,370	9,310	13,101	29,791	3,647	98,219
Amortisation of one year's discount	44,972	13,306	10,187	8,108	1,868	78,441
Increase/(decrease) in provision	(140,700)	(53,337)	(77,340)	19,441	2,701	(249,235)
Expenditure in year	(738,672)	(165,449)	(132,552)	(44,356)	(4,723)	(1,085,752)
At 31 March 2006	1,209,780	399,333	263,328	351,743	84,774	2,308,958

All Provisions for liabilities and charges relate to the core department.

The time scale over which it is estimated the discounted costs will need to be incurred, is as follows:

	2005-06	2004-05
	£billion	£billion
Within 1 year	1.0	1.2
Between 2 to 5 years	1.1	2.1
Beyond 5 years	0.2	0.2
Total	2.3	3.5

22.1 Health-Related Provisions

Health liabilities make up by far the largest proportion of the coal provision. Responsibility for the compensation claims relating to personal injuries suffered by former British Coal mineworkers transferred to the Department on 1 January 1998 by a restructuring scheme under the Coal Industry Act 1994.

While the provision amounts are based on the best available estimate, they are sensitive to the number of claims received and the size of individual awards made. If acceptance rates of offers made are higher than estimated, this will bring forward expenditure, whereas if rejection rates offers made are higher than estimated, expenditure may be delayed into future years.

Chronic Obstructive Pulmonary Disease (COPD)

These liabilities arise from claims relating to respiratory diseases such as emphysema and chronic bronchitis, caused by exposure to mine dust and fumes. The expected discounted liability over the next 3 years is £1.2 billion (2004-05: £2 billion), the undiscounted amount being £1.24 billion (2004-05: £2.12 billion). This scheme closed on 31 March 2004 and no further claims are being accepted.

Vibration White Finger (VWF)

These liabilities arise from claims relating to damage caused by the prolonged use of vibratory tools. The expected claims total to a discounted amount of around £0.4 billion over the next 2 years (2004-05: £0.6 billion). The corresponding undiscounted amount is £0.41 billion (2004-05: £0.62 billion). This scheme is also closed to new claims.

Other Health Provisions

This provision incorporates other injury-related compensation claims such as deafness, accidents and miscellaneous diseases. It also covers payments under British Coal's Pneumoconiosis Compensation Scheme and associated administration costs of managing the health claims. The undiscounted amount of these provisions is £0.27 billion (2004-5: £0.49 billion)

22.2 Non-Health Provisions*Concessionary Fuel*

The Department has a responsibility to provide either solid fuel or a cash alternative to over 111,000 beneficiaries. Approximately three quarters of these have opted for the cash alternative at an average of around £300 per annum, compared with the average annual solid fuel cost to the Department of around £700 per beneficiary. The number of beneficiaries is decreasing at around 5% per year and therefore the liability will continue for several decades. The provision is based on standard female mortality rates and includes an assumption of beneficiaries continuing to switch their entitlement from solid fuel to cash.

Site Restoration and Other

The Department has inherited the liabilities from British Coal to reimburse English Partnerships with the minimum costs necessary to meet statutory environmental standards whilst restoring contaminated sites no longer required for coal purposes.

The Avenue Cokeworks near Chesterfield is one of four sites on which this liability has been called. The discounted level of this provision at 31 March 2006 is £64.7 million (2004-05: £64.2 million). The deadline for this liability has now passed and therefore no new liabilities can arise in the future.

Also included under this heading are provisions relating to costs for the administration of non-health related liabilities and indemnities issued at privatisation.

23. Provisions for Liabilities and Charges – Nuclear

	Consolidated Department			
	UKAEA	BNFL	British Energy	Total
	Decommissioning			
	£000	£000	£000	£000
At 1 April 2005	4,398,133	7,341,693	2,339,792	14,079,618
Changes under the Energy Act 2004	(4,259,440)	(7,341,693)	–	(11,601,133)
Financing charges:				
Changes in discount rate	15,171	–	263,310	278,481
Amortisation of one year's discount	3,385	–	57,268	60,653
Increase/(decrease) in provision	2,274	–	(54,683)	(52,409)
Expenditure in year	(1,259)	–	(189,002)	(190,261)
At 31 March 2006	158,264	–	2,416,685	2,574,949

All Provisions for liabilities and charges relate to the Core department.

23.1 Changes as a consequence of the Energy Act 2004

The Nuclear Decommissioning Authority (NDA) was established under the Energy Act 2004 with full functions on 1 April 2005. As a result, with effect from 1 April 2005, the NDA acquired the responsibility for the nuclear liabilities previously under the responsibility of the UKAEA (except the Culham site), and BNFL. State Aid Clearance for the transfer of liabilities from BNFL to the NDA was received on 4 April 2006, and has been treated as a post balance sheet adjusting event (see note 37).

As a consequence of the revised arrangements, the Department's liability to cover the costs of the substantial part of its UKAEA decommissioning liabilities has fallen away. Likewise, the Department has also extinguished its liability to BNFL for the Magnox Undertaking. These changes have been effected from 1 April 2005 for consistency with the FReM merger accounting requirements applied for transfers of functions in the public sector.

23.2 United Kingdom Atomic Energy Authority (UKAEA) Decommissioning Provision

The DTI retains the liability to cover the costs of the decommissioning of the UKAEA Culham site and the 31 March 2006 balance reflects the estimated and discounted future costs for this.

Calculation of the liabilities is based on the technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are derived using the latest technical knowledge and commercial information available and take account of current legislation, regulations and government policy. Summary figures are built up by aggregating detailed estimates for individual liabilities. Allowance is also made for infrastructure costs, which are an appropriate share of running costs and other overhead costs attributable to plant and buildings. The calculation is re-assessed annually. Since much of the work will not be done until well into the future, there is considerable uncertainty as to the likely costs.

The time scale over which it is estimated the discounted costs will need to be incurred is as follows:

	<u>2005-06</u>	<u>2004-05</u>
	<u>£million</u>	<u>£million</u>
Within 1 year	0.9	1.3
Between 2 to 5 years	53.8	35.4
Beyond 5 years	103.6	102.0
Total	<u>158.3</u>	<u>138.7</u>

23.3 British Energy

The provision relates to British Energy's contracted historic spent fuel liabilities is based on a schedule of cash flows for the period 2004 to 2029, agreed between the Department and BNFL whereby costs each year are estimated to be £191 million (undiscounted at March 2006 prices) for the next 8 years. Amounts are then expected to fall each year thereafter. The total undiscounted liability is approximately £2.87 billion.

The provision is based on a forecast payment schedule which is set out in the waste processing contracts. These contracts were drafted before the BE restructuring and therefore the payment schedule has needed to be updated since the calculation of the annual forecast payments is driven by the actual restructuring date. This has led to a reduction in the level of provision but this was then offset by the increase in provision resulting from the change in discount rate applied from 3.5% to 2.2%.

The provision is included in the accounts at a discounted total value of £2.42 billion. The time scale over which the discounted costs will need to be incurred is:

	<u>2005-06</u>	<u>2004-05</u>
	<u>£billion</u>	<u>£billion</u>
Within 1 year	0.2	0.2
Between 2 to 5 years	0.7	0.7
Beyond 5 years	1.5	1.4
Total	<u>2.4</u>	<u>2.3</u>

24 Provisions for Liabilities and Charges – Other

	Core Department						Consolidated					
	SFLG		UKAEA		Early Retirement		Shipbuilder		British		Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2005	179,782	39,419	39,842	3,100	25,868	288,011	179,782	39,419	40,166	3,100	29,594	292,061
Financing charges: Change in discount rate	3,566	2,570	1,229	-	-	7,365	3,566	2,570	1,229	-	-	7,365
Amortisation of one year's discount	4,034	924	904	-	-	5,862	4,034	924	905	-	-	5,863
Increase/(decrease) in provision	72,400	545	7,936	79,300	14,174	174,355	72,400	545	15,112	79,300	13,620	180,977
Expenditure in year	(77,617)	(6,431)	(14,973)	-	(6,450)	(105,471)	(77,617)	(6,431)	(15,012)	-	(6,477)	(105,537)
At 31 March 2006	182,165	37,027	34,938	82,400	33,592	370,122	182,165	37,027	42,400	82,400	36,737	380,729

24.1 Small Firms Loan Guarantee (SFLG)

The SFLG is the Department's main instrument for supporting debt finance for business. By providing a Government backed guarantee, the scheme exists to enable lenders to assist small business with viable business proposals gain access to finance where they lack security, or credit history.

The provision is based on the expected value of defaults of all outstanding loans and has been discounted at the Treasury rate of 2.2%. The undiscounted liability is £188 million (2004-05: £190 million), which is expected to be utilised over the next eight years.

24.2 UKAEA Restructuring

Restructuring costs cover the continuing annual payments for staff that took early retirement primarily before the privatisation of AEAT in 1996 will continue until they reach retirement age.

24.3 Early Retirement

The Early Retirement Provision provides for the future costs of staff that have departed under a voluntary early retirement scheme that was completed during the year.

The provision is required in order to meet pension enhancement and severance costs for staff departing under this scheme, with the liabilities extending for up to 10 years.

24.4 British Shipbuilders

British Shipbuilders has liabilities arising from personal injury to former employees resulting from exposure to asbestos during the course of their work. The Department has taken responsibility for the liabilities of British Shipbuilders Corporation to the extent that they cannot be met from the residual funds of the Corporation. The undiscounted liability is £107 million. The current estimate is that the liabilities will extend for up to 20 years.

The time scale over which the discounted costs will need to be incurred is:

	<u>2005-06</u>	<u>2004-05</u>
	<u>£million</u>	<u>£million</u>
Within 1 year	2.3	0.0
Between 2 to 5 years	18.7	0.0
Beyond 5 years	61.4	3.1
Total	<u>82.4</u>	<u>3.1</u>

24.5 Other

This relates to a range of liabilities arising from the Department's normal business. It includes agency provisions arising through consolidation and provisions for various other Departmental programmes and administration costs.

25. 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.

	Core Department	2005-06 Consolidated	Core Department	2004-05 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	(15,818,373)	(15,909,459)	(17,391,711)	(17,463,282)
Net Parliamentary Funding				
Drawn Down	6,677,430	6,677,430	5,914,089	5,914,089
Deemed	279,570	279,570	313,204	313,204
Non supply expenditure funded by the National Insurance Fund	252,733	252,733	186,436	186,436
Net funding for National Loans Fund	-	-	-	-
Year end adjustment				
Supply (Creditor)/Debtor – current year	256,346	256,346	(279,570)	(279,570)
Net transfer from Operating Activities				
Net Operating cost	(5,678,389)	(5,731,084)	(3,956,834)	(4,020,073)
CFERS repayable to Consolidated Fund	(456,725)	(456,725)	(21,504)	(21,504)
Increase in RPS Debtors	12,811	12,811	7,474	7,474
Non Cash Charges				
Cost of Capital	(362,357)	(361,483)	(551,541)	(551,389)
Auditors' remuneration	242	314	205	279
Other Agency Notional Costs	-	-	(75)	1,617
Transfer from Revaluation Reserve	315	506	660	809
Transfer of assets/liabilities to NDA	11,601,134	11,601,134	-	-
Deferred income 3G license fees	2,451	2,451	-	2,451
Agency notional funding	(121,265)	-	(39,189)	-
INSS excess income	16,726	-	-	-
Inter-entity transactions	-	-	(17)	-
Balance at 31 March 2006	<u>(3,337,351)</u>	<u>(3,375,456)</u>	<u>(15,818,373)</u>	<u>(15,909,459)</u>

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

27.1 Reconciliation of operating cost to operating cash flows

	Note	2005-06 £000	2004-05 £000
Net Operating Costs	3.1	(5,731,084)	(4,020,073)
Adjustment for non-cash transactions	10.1	33,810	(156,667)
(Increase)/decrease in Stock		(493)	462
(Increase)/decrease in Debtors		(329,055)	(47,401)
Less movements in debtors relating to items not passing through the OCS		315,995	27,950
Increase/(decrease) in Creditors		4,597,168	68,386
Less movements in creditors relating to items not passing through the OCS		(4,607,690)	(17,651)
Use of provision	4	(1,381,548)	(1,484,231)
Non-cash expenditure funded by the NIF	3.1	252,733	186,436
Interest on NLF loan to Royal Mail-income	3.1	(29,170)	(29,170)
Interest on NLF loan to Royal Mail-expenditure	3.1	29,170	29,170
Net Cash Inflow/(Outflow) from Operating Activities		(6,850,164)	(5,442,789)

27.2 Analysis of capital expenditure and financial investment

	Note	2005-06 £000	2004-05 £000
Intangible fixed asset additions	15	(175)	(509)
Tangible fixed asset additions	14	(40,503)	(39,120)
Proceeds on disposal of fixed assets		43	-
Launch investments receipts		28,488	34,570
Other investments redeemed		19,704	18,360
Loans redeemed from Post Office Ltd	19	15,197,774	8,830,000
Investments made to other bodies	16	(29,615)	(31,133)
Loan made to Post Office Ltd	19	(15,077,774)	(9,300,000)
Net Cash Inflow/(Outflow) from Investing Activities		97,942	(487,832)

27.3 Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure £000	Loans etc £000	A-in-A £000	Net total £000
Request for Resources 1	(39,117)	(15,107,389)	15,248,493	101,987
Request for Resources 2	-	-	-	-
Net movement in debtors/creditors	(1,561)	-	(2,484)	(4,045)
Total 2005-06	(40,678)	(15,107,389)	15,246,009	97,942
Total 2004-05	(39,629)	(448,203)	-	(487,832)

27.4 Analysis of financing

	Note	2005-06 £000	2004-05 £000
From the Consolidated Fund (Supply) current year		6,677,430	5,914,089
Advances from the Contingencies Fund in relation to support for NDA		-	500
Repayments to the Contingencies Fund in relation to support for NDA		-	(500)
NLF loans- interest received from Royal Mail Holdings Plc	25	29,170	29,170
NLF loans- interest paid to the NLF	25	(29,170)	(29,170)
From the National Insurance Fund	25	252,733	157,266
Redundancy Payments	11	(252,733)	(157,266)
Net Financing		6,677,430	5,914,089

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

	Note	<u>2005-06</u> £000	<u>2004-05</u> £000
Net cash requirement	4	(7,213,347)	(5,947,723)
From the Consolidated Fund (Supply) – current year	27.4	6,677,430	5,914,089
Amount due to the Consolidated Fund – received in the prior year and paid over	21.1	(193,695)	(163,089)
Amounts due to the Consolidated Fund received and not paid over	21.1	809,626	193,695
Increase/(decrease) in cash		<u>80,014</u>	<u>(3,028)</u>

28. CAPITAL COMMITMENTS

	<u>2005-06</u>	<u>2004-05</u>		
	<u>Core Department</u> £000	<u>Consolidated</u> £000	<u>Core Department</u> £000	<u>Consolidated</u> £000
Contracted capital commitments at 31 March 2006 for which no provision has been made	<u>7,589</u>	<u>9,577</u>	<u>720</u>	<u>5,228</u>

29. COMMITMENTS UNDER LEASES**29.1 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.

	<u>2005-06</u>	<u>(restated)</u>	<u>2004-05</u> <u>(restated)</u>	
	<u>Core Department</u> £000	<u>Consolidated</u> £000	<u>Core Department</u> £000	<u>Consolidated</u> £000
Obligations under operating leases comprise:				
Land and buildings:				
Expiry within 1 year	173	359	139	732
Expiry within 2 to 5 years	174	4,839	87	3,867
Expiry after 5 years	37,520	50,509	38,281	51,172
	<u>37,867</u>	<u>55,707</u>	<u>38,507</u>	<u>55,771</u>
Other:				
Expiry within 1 year	63	202	38	223
Expiry within 2 to 5 years	181	1,028	357	946
Expiry after 5 years	–	–	76	79
Total	<u>244</u>	<u>1,230</u>	<u>471</u>	<u>1,248</u>

30. COMMITMENTS UNDER PFI CONTRACTS**30.1 Off-balance sheet**

During the 2005-06 financial year, the Department had off balance sheet PFI contracts with Fujitsu Services Ltd, IWS for Matrix, and IWS for joint infrastructure.

30.2 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 was approximately £30m (2004-05 £32m). The payments to which the Department is committed during 2006-07, analysed by the period during which the commitments expires, are as follows.

	2005-06		2004-05	
	<u>Core Department</u>	<u>Consolidated</u>	<u>Core Department</u>	<u>Consolidated</u>
	£000	£000	£000	£000
Expiry within 1 year	-	-	-	-
Expiry within 2 to 5 years	2,058	2,058	-	-
Expiry within 6 to 10 years	30,000	47,442	32,000	38,195
Total	32,058	49,500	32,000	38,195

The ELGAR contract covers the provision of a wide range of information systems and services to the Department, including infrastructure management, IT development, business process re-engineering, consultancy advice and technology refresh. The contract was awarded in November 1998 for a period of 10 years, extendable for up to a further 5 years. The contract is now set to expire on 31 March 2014. The amount of contract charged as operating expenses in 2005-06 amounted to £30 million and the estimated cumulative capital value of the scheme is £24.6 million. Over the 8 remaining years of the contract the payments may amount to £232 million. The DTI has a responsibility to pay termination charges should the Department exercise its break option before the agreed service end date. These amount to £72.2 million, comprising £14.2 million for the core service (including Matrix core of £6.1 million), £22.5 million for Matrix and an additional £35.5 million for other (extended) services.

In addition, UK Trade and Investment (UKTI) and the Insolvency Service (INSS), which are bodies whose results are consolidated into these accounts, also have contracts with ELGAR for the provision of IT services. Details can be found in the separate resource accounts of these bodies.

31. OTHER FINANCIAL COMMITMENTS

The department has entered into non-cancellable contracts (which are not leases or PFI contracts), for subscriptions to international bodies, the payments to which the department is committed during 2005-06, analysed by the period during which the commitment expires are as follows:

	2005-06		2004-05	
	<u>Core Department</u>	<u>Consolidated</u>	<u>Core Department</u>	<u>Consolidated</u>
	£000	£000	£000	£000
Expiry within 1 year	117	117	-	-
Expiry within 2 to 5 years	-	-	826	826
Expiry after 5 years	63,510	63,510	67,660	67,660
Total	63,627	63,627	68,486	68,486

31.1 Bodies to whom subscriptions are included in the amounts disclosed above are:

	Note	Commitments due to expire			Total £000
		within 1 year	within 2 to 5 years	over 5 years	
		£000	£000	£000	
Organisation					
European Space Agency	a	–	–	41,200	41,200
International Atomic Energy Agency	b	–	–	11,250	11,250
World Trade Organisation	c	–	–	4,277	4,277
Organisation for the Prohibition of Chemical Weapons	d	–	–	2,916	2,916
Universal Postal Union	e	–	–	1,000	1,000
International Energy Agency	f	–	–	1,056	1,056
Bureau International des Poids et Mesures (BIPM)	g	–	–	591	591
Nuclear Energy Agency	h	–	–	512	512
European Energy Charter	i	–	–	351	351
UNIDROIT	j	–	–	80	80
Organisation Internationale de Metrologie Legale (OIML)	k	–	–	36	36
Organisation for Economic Co-operation and Development, Steel Committee	l	–	–	35	35
UN Convention on Law of the Sea Membership	m	117	–	–	117
EUROMET	n	–	–	6	6
Hallmarking Convention	o	–	–	4	4
International Lead & Zinc Study Group (ILZSG)	p	–	–	66	66
International Nickel Study Group (INSG)	q	–	–	130	130
Total		117	–	63,510	63,627

Notes:

- a) The *European Space Agency (ESA)* carries out civil space programmes for its Member States, including the UK. DTI contributions cover part of the Agency's general budget, which is, under the ESA Convention, mandatory for all Member States, who share it in proportion to net national income at factor cost. The UK contribution is shared between DTI and the Research Councils, which also take part in the programmes of the Agency, broadly in proportion to their shares in the total UK funding of the Agency. In 2005-06, the Research Councils concerned were PPARC and NERC. DTI contributions also cover the UK's share of those individual "optional" programmes of the Agency to which the UK has committed funding, which are directed towards industrial and commercial objectives.
- b) The *International Atomic Energy Agency (IAEA)* serves as the world's central inter-governmental forum for scientific and technical co-operation in the peaceful use of nuclear technology. A specialised agency within the United Nations system, the IAEA headquarters are in Vienna. Established as an autonomous organisation under the United Nations (UN) in 1957, the IAEA represents the culmination of international efforts to make a reality of US President Eisenhower's proposal in his Atoms for Peace speech before the UN General Assembly in 1953, where he envisioned the creation of an international body to control and develop the use of atomic energy. By 29 July 1957, eighteen States had ratified the Statute of the IAEA thus bringing it into force and now the Agency's broad spectrum of services, programmes, and activities is based on the needs of its 134 Member States.
- c) The DTI is responsible for the payment of the UK's annual contribution to the *World Trade Organization (WTO)*, which deals with the global rules of trade between nations. Its main function is to ensure that international trade flows as smoothly, predictably and freely as possible. As a member of the WTO the UK, like other members, has a legal commitment to pay a contribution to the cost of running the WTO Secretariat, which is based in Geneva. The UK's share is calculated on the basis of our international trade in relation to the total international trade of all WTO members.

- d) The *Chemical Weapons Convention (CWC)*, which entered into force on 29 April 1997, is the first arms control treaty, which seeks to introduce a verifiable ban on an entire class of weapons of mass destruction. It is administered by the Organisation for the Prohibition of Chemical Weapons (OPCW), which is based in The Hague. As of 1 November 2004 the OPCW had 175 State Parties. The Department of Trade and Industry (DTI), as the UK National Authority, is responsible for the implementation of the CWC in the UK. The powers to implement the declaration and verification provisions in the CWC are contained in the Chemical Weapons Act 1996.
- e) The *Universal Postal Union (UPU)* is the United Nations Agency, which is the primary forum for co-operation between postal service providers. The UK's membership of the UPU enables its national postal service operator, Royal Mail, to participate in the worldwide network of postal operators, to enter into agreements for the exchange of international mail, and to exchange and develop experiences of best practice in postal operations. The annual subscription for UPU membership is paid by the DTI, with some 60% of the total subsequently recovered from Royal Mail.
- f) The *International Energy Agency (IEA)* is the energy forum for 26 member countries whose Governments are committed to taking joint measures to meet oil supply emergencies and to share energy information, co-ordinate energy policies and co-operate in the development of rational energy programmes. The main objectives of the Paris-based IEA (in effect, the OECD's energy arm though some OECD countries are not IEA members) are to prepare for and take action in the event of severe oil disruptions, assist the co-ordination of the energy policies of its member countries, and encourage good practice in energy policy worldwide. The UK's subscription supports these objectives.
- g) The *Bureau International des Poids et Mesures'* mandate is to provide the basis for a single, coherent system of measurements throughout the world, traceable to the international System of Units (SI). The annual subscription has been payable since the Government signed up to the Metre Convention circa 1888.
- h) DTI pays the UK's annual contribution to the *Nuclear Energy Agency (NEA)* on behalf of a number of Departments and Agencies that participate in the NEA's work. The NEA is an internationally recognised non-promotional organisation providing a forum for addressing and disseminating information on technical scientific and economic issues affecting nuclear energy globally.
- i) The DTI is responsible for the UK's subscription to *The European Energy Charter* (usually known as the Energy Charter Treaty), which strives towards open, efficient, sustainable and secure energy markets providing a rules based mechanism to economic activity in the energy sector among contracting parties. The main objective of the Energy Charter Treaty is to liberalize energy trade, transit and investment and to promote energy efficiency in/between its (mainly Eurasian) signatory countries, aims that the UK strongly supports.
- j) The DTI pays an annual contribution towards the running of the *International Institute for the Unification of Private Law (UNIDROIT)*. UNIDROIT is an independent intergovernmental organisation with its seat in Rome. Its purpose is to study needs and methods for modernising, harmonising and co-ordinating private and in particular commercial law as between States and groups of States.
- k) The *International Organisation of Legal Metrology (OIML)* promotes the global harmonisation of legal metrology procedures. It provides its members with metrological guidelines for the elaboration of national and regional requirements concerning the manufacture and use of measuring instruments for legal metrology application. The payment is made on behalf of the National Weights and Measures Laboratory and is a requirement of their international legal metrology role.
- l) The *Organisation for Economic Co-Operation and Development (OECD) Steel Committee* is the international forum established to discuss steel industry issues such as production trends, trade flows and issues, market developments and environmental issues. DTI provides funding as a contribution to the work of the Committee, which is attended by both OECD and non- OECD members.

- m) Following on from the UK's accession to the *United Nations Convention on the Law of the Sea*, the UK has a legal commitment to provide a proportion of the running costs of the Convention. The total UK contribution is shared between those Departments with a significant interest in the Convention.
- n) *EUROMET* is a cooperative voluntary organisation between the National Metrology Institutes (NMIs) in the EU including the European Commission, EFTA and EU Accession States. The objective of *EUROMET* is to promote the coordination of metrological activities and services with the purpose of achieving higher efficiency. *EUROMET* was formally established by the signing of a Memorandum of Understanding (MOU) by participating States in Madrid, Spain on 23 September 1987 to become operative from 1 January 1988. DTI makes an annual payment on behalf of the National Physical Laboratory, which is a requirement of their international metrology role.
- o) The UK is a member of the *Convention on the Control and Marking of Articles of Precious Metals (Hallmarking Convention)*, which facilitates the cross border trade of independently marked precious metal articles. The UK recognises Convention hallmarks from 12 member countries. Goods marked with Convention hallmarks can be imported and sold in the UK without the need for additional UK hallmarking
- p) The DTI is responsible for annual payments to The *International Lead & Zinc Study Group*, a UN-affiliated group set up to bring transparency to the global lead and zinc markets. The Group's HQ recently moved from London to Lisbon in January 2006. The UK as a major producer of lead and consumer of both lead and zinc has strong industry support for its continuing membership of this Group.
- q) The *International Nickel Study Group (INSG)* is an autonomous, intergovernmental organisation established in 1990. Membership comprises nickel producing, consuming and trading countries. The DTI makes payments to cover the UK annual membership fee for this UN affiliated Group, based in Lisbon and shares its HQ with the ILZSG.
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32. FINANCIAL INSTRUMENTS

FRS13, *Derivatives and Other Financial Instruments*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which 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 FRS13 mainly applies. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

The Department's financial instruments comprise of cash, loans, investments, public dividend capital, provisions, trade debtors, and trade creditors. Details of these can be found in the relevant notes.

32.1 Liquidity, Interest Rate and Foreign Currency risk

Resources are voted annually by Parliament to finance the Department's net revenue resource requirements and its capital expenditure and there is therefore no exposure to significant liquidity risks. The Department does not access funds from commercial sources and so is not exposed to significant interest rate risk.

The Department had insignificant exposure to foreign currency risk during the year. Foreign currency income was negligible and foreign currency expenditure was a very small percentage of total expenditure.

There is no material difference between the fair values and book values of the Group's financial instruments.

Short-term debtors and creditors have been excluded from the above disclosures, as allowed by FRS13.

33. CONTINGENT LIABILITIES DISCLOSED UNDER FRS 12

Basis of Recognition	Description
<i>Coal Industry Act 1994</i>	<p>Any liabilities of British Coal in respect of industrial injury to its former employees between 1947 and 31 December 1994, the timing and amounts of which are uncertain at this time. The liabilities arise through the various health claims that have been made by former and current employees of British Coal. The uncertainty is due to two factors:</p> <p>a) the nature of any injury; and b) whether the courts decide that compensation is due.</p> <p>Given recent history, the fact that the burden of proof rests with the plaintiff and that the compensation level is determined on a case-by-case basis, there is a high level of uncertainty relating to either the amount of the payments due or whether they are likely to be paid. This uncertainty is also referred to in the Coal Provisions note (note 22). Over time, it is likely that a more accurate estimate of the expected costs to be borne by the Department will become available.</p>
<i>British Energy</i>	<p>There are a number of contingent liabilities that arise from the Department's support for British Energy referred to elsewhere in these accounts, as follows:</p> <p>a) <i>Uncontracted and Decommissioning Liabilities</i> British Energy Nuclear Liabilities. The Secretary of State created a constructive obligation due to her announcement in 2002 regarding BE restructuring (stating that the Government would underwrite the Nuclear Liabilities Fund (NLF) in respect of BE's uncontracted and decommissioning liabilities to the extent that the assets of the Fund fall short). The restructuring was successfully completed on 14 January 2005, and as such the Department has assumed this responsibility. Once the NLF has discharged all liabilities for which it is responsible, any surplus remaining in the Fund would be payable to the Government.</p> <p>There is a high level of uncertainty relating to possible future cash flows, which the Department might need to make. This is dependent on BE's estimates for the costs of meeting their decommissioning and uncontracted liabilities which may be revised year on year and on the contributions from BE. In particular the BE cash sweep payment is difficult to forecast as it is dependent upon the performance of the company. As such it is hard to quantify whether this represents a contingent liability or asset. On the basis of DTI's current estimate of the assets available to the NLF to meet its liabilities (£8.1 billion: 2005 £4.0 billion) and BE's unaudited estimate for decommissioning and uncontracted liabilities (£4.0 billion: 2005 £1.6 billion) there is a contingent asset of £4.1 billion (2005: £2.4 billion). The liabilities figure is subject to review by the NDA which at the time of finalising these accounts had not been received.</p> <p>b) <i>Trustee Indemnities</i> Indemnities have been given to the three trustees of the NLF appointed by the Secretary of State. Indemnities have also been given to the two BE appointed trustees of the NLF against personal liability following any legal action against the Fund. These indemnities can only be used following failed recourse to an indemnity given by British Energy.</p>
<i>Nuclear</i>	<p>The Department has a range of civil nuclear liabilities arising through its association with UKAEA and NDA as well as ensuring that the Government complies with its obligations under the various international nuclear agreements and treaties. The amount and timing of this overarching liability is not quantifiable.</p> <p>In addition, the Government has had to provide temporary indemnity to British Nuclear Insurers to cover terrorism risks.</p>
<i>EC Directives relating to Structural Funds</i>	<p>There is a risk that the EC may seek recovery from the Department of grants paid under various ERDF Community Initiative Programmes arising from our quantification of the financial impact of irregularities found in two of the seven Community Initiative Programmes, which the Department is responsible for. The eventual liability that might crystallise is still uncertain and is dependent upon the EC's formal notification of its decision on the matter. However, five of the seven Community Initiative Programmes have now been closed reducing to a minimum the exposure to the Department.</p>
<i>Health and Safety</i>	<p>Claims have been lodged by a number of employees and ex-employees for compensation for industrial injury or disease allegedly arising from a period of employment at one or other of the former research establishments of the DTI. The timing and amount of this liability is not quantifiable.</p>

Basis of Recognition	Description
<i>Postal Services Act 2000</i>	<p>As part of the Royal Mail financing package, the Department agreed on 20 December 2002 to buy two bonds issued by Royal Mail, the values of which were £300 million and £200 million respectively. Royal Mail did not request the purchase of either bond in 2005-06. The availability of the £300m bond agreement has been extended and runs until 20th January 2007. The availability of the £200m bond agreement lapsed on the 20th March 2005. Terms of the agreement state that Royal Mail must request the transaction at least six months in advance (as the Department must gain Parliamentary approval before purchasing the bonds because the funds would come from DTI supply which is voted by Parliament) and that the bond must be utilised in full. If the Department were to purchase the remaining bond, it would mature on 20th March 2009. The terms of a bond purchase have been agreed on a commercial basis.</p> <p>The Department has also made available to Post Office Limited, through an agreement reached on 17th October 2003, a revolving loan facility of up to £1.15 billion. This is to help the company fund its working capital requirements in light of the migration of state benefits payments to a system of direct payment, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and in full, from post office branches. Post Office Limited began utilising this facility on 1st December 2003. The agreement allows for the company to have up to 30 concurrent loans out at any one time with loan periods which can be one day or longer. The availability of the facility ends on 30th March 2010 and any outstanding loans must be repaid by 31st March 2010. The proposal for a Working Capital package was given EU State Aid clearance in May 2003.</p>

34. CONTINGENT LIABILITIES NOT REQUIRED TO BE DISCLOSED UNDER FRS 12 BUT INCLUDED FOR PARLIAMETARY REPORTING AND ACCOUNTABILITY PURPOSES

34.1 Quantifiable

	1 April 2005	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2006
	£000	£000	£000	£000	£000
<i>Statutory Guarantees</i>					
–Home Shipbuilding Credit Guarantee Scheme	–	56,000	–	–	56,000
<i>Statutory Indemnities</i>					
–Local Network indemnities	67,613	–	–	(10,637)	56,976
<i>Other</i>					
–Callable capital subscription for the Common Fund for Commodities	1,960	–	–	–	1,960
–Paid in capital subscription for the Common Fund for Commodities	2,240	–	–	–	2,240
Total	71,813	56,000	–	(10,637)	117,176

34.2 Unquantifiable

The Department 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.

Statutory Guarantees

- Assurances and guarantees relating to British Shipbuilders;
- Guarantees given to meet any deficits in the funds of British Coal Corporation Pensions;
- A guarantee has been given to the Financial Reporting Council that if the amount held in the Legal Costs fund falls below £1m in any year, an additional grant will be made to cover legal costs subsequently incurred in that year;
- Any liabilities imposed by section 68, Telecommunications Act 1984
- Any liabilities imposed by section 9, British Aerospace Act 1980;

Statutory Indemnities

- Indemnity in respect of National Grid Company's liabilities re the interconnector linking England and France;

- Indemnities given to UKAEA by the Secretary of State to cover certain indemnities given by UKAEA to carriers and British Nuclear Fuels Plc against certain claims for damage caused by nuclear matter in the course of carriage;
- Indemnities equivalent to those given to civil servants under the Civil Service Management Code have been given to persons appointed to the Board of the Office of Fair Trading, including the Chairman;
- Indemnities equivalent to those given to Board members of Non-Departmental Public Bodies (NDPBs) have been given to members of the nine Regional Committees of Postwatch (the Consumer Council for Postal Services);
- Indemnities given to Bankers of the Insolvency Services against certain liabilities arising in respect of non-transferable "account payee" cheques due to insolvent estates and paid into the Insolvency Service's account.
- The Police Information Technology Organisation (Home Office) provides DTI with access to data from the Police National Computer (PNC). The DTI has indemnified the police against any liabilities which they might incur as a result of providing that access;

Letters of Comfort

- Letter of comfort to AEA Technology re joint European project for underground gasification of coal;

Other

- Statutory Liability for third party claims in excess of the operator's liability in the event of a nuclear accident in the UK;
- Further Incidents/Accidents Insurance claims for exposure to ionising radiation pursued outside the existing UKAEA insurance scheme;
- Liabilities relating to the issue of licences to operators of satellites and other space objects;
- European Patent Office (EPO): The UK as one of the contracting states has a potential liability under Article 40 of the European Patent Convention of 1973;
- The UK, as a contracting state to the Patent Co-operation Treaty of 1970, has a potential liability under Article 57 of the Treaty;
- Outstanding claims under the Enemy Property Claim scheme are still being considered.
- There is a possibility that other liabilities exist in relation to nationalised, and former nationalised, industries that, if they crystallised, may fall to the Department.

35. LOSSES AND SPECIAL PAYMENTS

35.1 Losses Statement

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Total	5,589 (129 cases)	2,647 (46 cases)

Details of cases over £250,000

Claims abandoned

In the 2005-06 year, one case of £5.2 million was recorded in relation to the unrecovered portion of the MG Rover loan (see page 6 and note 16.8).

35.2 Special Payments

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Total	119 (17 cases)	173 (9 cases)

Details of cases over £250,000

No individual cases exceeded £250,000

36. RELATED-PARTY TRANSACTIONS

The Department is the parent of the Advisory, Conciliation and Arbitration Service (ACAS), the Employment Tribunals Service (ETS), the Insolvency Service (INSS), the National Weights and Measures Laboratory (NWML), and the Small Business Service (SBS) and sponsor of the non departmental public bodies (shown in note 40.3), Companies House and the Patent Office (trading funds) and Royal Mail Holdings plc, British Shipbuilders, BNFL and OFCOM. In addition British Energy is considered to be a quasi-subsiary of the Department. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition the Department acts as guarantor for the Mineworkers Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS). These schemes have been disclosed as Fixed Asset Investments in the accounts with a corresponding debtor arising from surpluses in the respective funds being shown as Current Asset Investments. The Government, through the Secretary of State, appoints five of the MPS's Committee of Management. Of these five, two are also members of the BCSSS Committee of Management. There were no transactions between the Department and Coal Pension Trustee Services Ltd, a jointly owned venture of the MPS and the BCSSS.

No Minister, board members, key managerial staff or other related parties has undertaken any material transaction with the Department during the year. David Hughes, Director General for the Department's Innovation Group and therefore a member of the Management Board, was also a member of the Council of the Engineering and Physical Sciences Research Council (EPSRC) during 2005-06. Mary McAnally, independent member of the Management Board, is also an independent board member of the South East of England Development Agency (SEEDA). EPSRC and SEEDA are both NDPBs sponsored by the Department (see note 40.3 of the notes to the resource accounts).

The Department has had a small number of transactions with other Government Departments and other central government bodies.

37. POST BALANCE SHEET EVENTS

Transfer of Functions of Employment Tribunals Service

On 1 April 2006 the functions of the Employment Tribunals Service (ETS) transferred to the Department of Constitutional Affairs (DCA) to become part of the new Tribunals Service. A PES transfer has been agreed between DTI and DCA to cover the work of the ETS. As the funding of ETS is dependent on the caseload of the agency, a contingency arrangement has also been agreed should the caseload vary significantly from that on which the transfer is based. Assets to the value of £15,580,796 and liabilities to the value of £7,364,339, giving net assets of £8,216,457 were transferred, with the remaining liabilities staying within the Department.

Merger of Company Investigations Branch into Insolvency Service

On 1 April 2006 the Company Investigations Branch, previously a part of the Corporate Law and Governance (CLG) Directorate in DTI HQ, merged into the Insolvency Service, one of the Department's Executive Agencies. This move was the result of a recommendation in the Hampton report into regulatory inspection and enforcement, which was accepted by the government in the Chancellor of the Exchequer's budget speech on 16 March 2005. The merger will result in a reduction in CLG's administration costs and programme budgets, and a consequent increase in the Department's programme budget for the Insolvency Service.

State Aid Clearance for transfer of nuclear liabilities from BNFL to NDA

On 4 April 2006, the EC announced State Aid approval for the transfer of nuclear liabilities from BNFL to the NDA, thus enabling the NDA to assume full responsibility for decommissioning as provided for in the Energy Act 2004. This announcement confirmed the decision made at official level on 30 March 2006.

This is treated as an adjusting post balance sheet event in these accounts. The effect of this is to extinguish the Department's liability ('The Magnox Undertaking') for BNFL decommissioning and to transfer responsibility for this to NDA. The Department's liability has been removed from the accounts from 1 April 2005. This is consistent with the treatment applied to the transfer in NDA's

accounts where under Government Accounting rules, this is to be treated as a 'Machinery of Government' change and is therefore effective from 1 April 2005.

The state aid clearance and subsequent transfer of financial responsibility for decommissioning to the NDA has meant that BNFL ceased to have beneficial interest in the Nuclear Liabilities Investment Portfolio and the Springfields investment. This has also been treated as an adjusting post balance sheet event.

Transfer of sponsorship responsibilities for EOC

Following the Ministerial reorganisation on 5 May 2006, the Women and Equality Unit (WEU) has transferred to the Department of Communities and Local Government (DCLG) in a 'Machinery of Government' change. As part of the transfer, the WEU's sponsorship responsibilities for the Equal Opportunities Commission and the Women's National Commission, with their associated budgets, have also transferred to DCLG.

Sale of Wrest Park

Wrest Park House has been in the freehold of DTI, but has provided to Biotechnology and Biological Sciences Research Council (BBSRC) on a 999-year lease. It sat within the Silsoe research institute, now being closed. Wrest Park is recorded at a nominal value in the DTI's balance sheet. On 3 April 2006 Wrest Park was sold to English Heritage for a nominal sum.

38. THIRD-PARTY ASSETS

The following are balances on accounts held in DTI's name at commercial banks but which are not DTI monies. They are held or controlled for the benefit of third parties and are not included in DTI's Resource Accounts.

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Bank Balances	9,380	15,774

39. MACHINERY OF GOVERNMENT CHANGES (MOG) DURING 2005-06

The Department had one MOG change affecting its estimates during 2005-06 relating to the nuclear decommissioning liabilities, which are now the responsibility of the Nuclear Decommissioning Authority (NDA) under the Energy Act 2004.

On 1 April 2005 under a MOG change the Ministry of Defence (MOD) transferred its nuclear decommissioning liabilities to the NDA. The discounted value of the liabilities transferred was £4,307 million (£14,022 undiscounted). These were transferred to the NDA as per the conditions of the Energy Act 2004. A transfer of estimate from the MOD to the DTI was made to enable increased payments of grant-in-aid to the NDA, but the transfer of MOD liabilities had no impact on the DTI resource account.

40. ADDITIONAL ENTITIES WITHIN THE DEPARTMENT BOUNDARY

40.1 Agencies and ACAS

The principal activities undertaken by the Agencies and by ACAS in pursuit of the aims and objectives of the Department are summarised below. Further details of each entity can be found in their respective annual reports and accounts available from The Stationery Office.

Body	Principal Activities
The Employment Tribunals Service	Provides administrative support to Employment Tribunals and their appellate body, the Employment Appeals Tribunal.
The Insolvency Service	Deals with compulsory corporate and individual insolvencies in England and Wales, investigates fraud and misconduct in insolvencies and administers the Redundancy Payments Service.
National Weights and Measures Laboratory	Regulates equipment used for trade weighing and measurement, and represents the UK in international discussions of the technical requirements for measuring instruments.
Small Business Service	Works as a strong voice for small business at the heart of Government, develops and maintains a world-class business support service; champions entrepreneurship; and works to reduce the burden of regulation on smaller businesses.
ACAS	Provides an independent and impartial service to prevent and resolve disputes and build harmonious relationships at work, and resources two independent statutory authorities: the Central Arbitration Committee (CAC), which provides voluntary arbitration and exercises judicial arbitration powers; and the Certification Officer who is responsible for ensuring compliance with statutory provisions relating to trade unions and employers' associations.

The Insolvency Service

The Insolvency Service receives monies, in accordance with Section 403 of the Insolvency Act 1986, from the realisation of assets in bankruptcies and company liquidations. The sums received are held by the Secretary of State. Interest earned on balances is surrendered to HM Treasury in accordance with Section 405 of the Insolvency Act. Amounts so received are excluded from these accounts as they are outside the voted Supply and are subject to a different financial control framework. Further details are available in the Published Accounts of the Insolvency Service.

The Redundancy Payments Service

The Department is responsible for the approval and processing of claims under the Redundancy Payment Scheme, which is financed from the National Insurance Fund. Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during the 2005-06 year was £2,662 (2004-05: £1,644). An average amount of £964 was paid during 2005-06 for RP2 (2004-05: £764).

There is an associated income related to this scheme arising from two sources:

- Solvent Recovery – where monies are recovered over a period of up to three years from companies, setting up a standing order, that are continuing to trade but would not be able to do so if they had to meet the full costs of redundancy payments at that time;
- Insolvent Recovery – the Department becomes a creditor receiving a dividend if there are sufficient funds on the winding up of the company.

Expenditure in 2005-06 totalled £281 million (2004-05: £216 million) against income of £29 million (2004-05: £29 million).

40.2 Non Executive NDPB's

In addition to ACAS and the Executive Agencies of the Report, the following non-executive NDPBs, advisory bodies and tribunals are covered by these accounts by way of including in the reported results the funds paid to them as grant or expenses. These bodies do not produce their own resource accounts:

<i>Advisory Committee on Carbon Abatement Technologies</i>	<i>Low Pay Commission</i>
<i>Age Advisory Group</i>	<i>Manufacturing Forum</i>
<i>Aerospace Innovation & Growth Leadership Scheme*</i>	<i>Materials Innovation and Growth Team</i>
<i>Advisory Panel on Management and Leadership*</i>	<i>Measurement Advisory Committee</i>
<i>Better Payment Practice Group</i>	<i>Motorsport Development Board*</i>
<i>Capital for Enterprise Advisory Board*</i>	<i>Office of Manpower Economics</i>
<i>Central Arbitration Committee</i>	<i>Over-indebtedness Advisory Group</i>
<i>CIC Regulator and Appeals Officer*</i>	<i>Persons Hearing Consumer Credit Licensing Appeals</i>
<i>Construction Act Sounding Board*</i>	<i>Persons Hearing Estate Agents Appeals</i>
<i>Copyright Tribunal</i>	<i>PILOT – the Right course for Oil and Gas success</i>
<i>Council for Science and Technology</i>	<i>Regional Industrial Development Boards</i>
<i>Electronics Leadership Council*</i>	<i>Renewables Advisory Board</i>
<i>Employment Appeal Tribunal</i>	<i>Small Business Council</i>
<i>Employment Tribunal Implementation Group</i>	<i>Small Business Investment Taskforce</i>
<i>Environmental Innovations Advisory Group</i>	<i>Strategy for Women in SET Implementation Group</i>
<i>Ethnic Minority Business Forum</i>	<i>Sustainable Energy Policy Advisory Board</i>
<i>EU Emissions Trading Scheme – Appeals officers*</i>	<i>Technology Strategy Board</i>
<i>Fuel Poverty Advisory Group Employment Tribunal Implementation Group closed March 06</i>	<i>UK Energy Research Partnership*</i>
<i>Industrial Development Advisory Board</i>	<i>UK National Authority Advisory Group</i>
<i>Information Age Partnership</i>	<i>Women's National Commission</i>
<i>Insolvency Practitioners Tribunal</i>	<i>Women and Work Commission</i>

* denotes a new body set up during 2005-06

The following bodies were disbanded during 2005-06

- Advisory Forum on Impact of Employment Policies (closed March 2006)
- Agriculture & Environment Biotechnology Commission (closed April 2005)
- Bioscience Leadership Council (closed January 2006)
- Broadband Stakeholder Group (February 2006, ONS reclassified no longer public sector)
- Commission for Equality and Human Rights Task Force (closed March 2006)
- Employment Tribunal Implementation Group (closed March 2006)
- National Network Forum (closed April 2005)
- National Policy Forum for Start-ups (closed April 2005)
- UK Nanotechnology Applications Strategic Advisory Group (closed April 2005)
- Work and families: Human Resources Advisory Group (closed March 2006)
- Women's Enterprise Panel (closed December 2005)
- Intellectual Property Advisory Committee (closed September 2005)

40.3 Entities not consolidated

The following entities are outside of the accounting boundary for consolidation purposes:

Trading Funds

- Companies House
- The Patent Office

Public Corporations

- British Energy Group plc
- British Nuclear Fuels plc
- British Shipbuilders
- Ofcom¹
- Royal Mail Holdings plc
- Nirex CLG Ltd (jointly owned with DEFRA who are the sponsoring department)

Central Government Organisation

- Nuclear Liabilities Fund (also a company limited by shares)²

Non-Departmental Public Bodies (NDPBs)

- British Hallmarking Council
- Coal Authority
- Consumer Council for Postal Services – "Postwatch"
- Competition Commission

¹ Ofcom is responsible to both DTI and DCMS.

² The Nuclear Liabilities Fund (previously the Nuclear Generation Decommissioning Fund (NGDF)), which was previously a private company set up on the privatisation of British Energy in 1996, was re-classified during the 2004-05 year to the public sector by the Office of National Statistics (ONS) with retrospective effect to the date of its inception. Policy responsibility for the NLF transferred to the DTI on 14 January 2005. The ONS and Cabinet Office have yet to pronounce which classification of Central Government body the NLF falls under.

- Competition Service and Competition Appeal Tribunal
- The Design Council
- Equal Opportunities Commission
- The Financial Reporting Council (FRC) (also a company limited by guarantee)
- Gas and Electricity Consumer Council – “Energywatch”
- Hearing Aid Council
- National Consumer Council (also a company limited by guarantee)
- National Research Development Corporation (a shadow body that does not produce an annual report and accounts)
- Nuclear Decommissioning Authority (NDA)
- The Regional Development Agencies (RDAs):
 - Advantage West Midlands
 - East Midlands Development Agency
 - East of England Development Agency
 - Northwest Regional Development Agency
 - One North East
 - South East England Development Agency
 - South West of England Regional Development Agency
 - Yorkshire Forward
- The Research Councils:
 - Arts and Humanities Research Council
 - Biotechnology and Biological Sciences Research Council
 - Council for the Central Laboratory of the Research Councils
 - Economic and Social Research Council
 - Engineering and Physical Sciences Research Council
 - Medical Research Council
 - Natural Environment Research Council
 - Particle Physics and Astronomy Research Council
- Simpler Trade Procedures Board (SITPRO) (also a company limited by guarantee)
- United Kingdom Atomic Energy Authority (UKAEA)

The Department also sponsors the London Development Agency, a local authority body and not an NDPB, which is responsible to the Greater London Authority.

The Secretary of State for Trade and Industry also represents the following non-Ministerial organisations that are outside of the resource accounts boundary and who produce their own accounts:

- Export Credits Guarantee Department (ECGD)
- Office of Fair Trading (OFT)
- Office of Gas and Electricity Markets (Ofgem)
- Postal Services Commission (Postcomm)

Further Information:

Name	Address
The Stationery Office	PO Box 29, Norwich, NR3 1GN Website: www.tso.co.uk
The National Weights and Measures Laboratory	Stanton Avenue, Teddington, Middlesex, TW11 0JZ. Website: www.nwml.gov.uk
The Employment Tribunals Services	Ground Floor, Victory House, 30-34 Kingsway, London, WC2B 6EX. Website: www.employmenttribunals.gov.uk
The Insolvency Service	P.O. Box 203, 21 Bloomsbury Street, London, WC1B 3QW. Website: www.insolvency.gov.uk
Advisory, Conciliation and Arbitration Service	Brandon House, 180 Borough High Street, London, SE1 1LW Website: www.acas.org.uk
Small Business Service	1 Victoria Street, London, SW1H 0ET St Mary's House, c/o Moorfoot, Sheffield, S1 4PQ Website: www.sbs.gov.uk

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