

Building Research Establishment

Financial Statements 1996/97

Building Research Establishment Financial Statements 1996/97

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Foreword

History and Background Information

The Building Research Establishment (BRE) provides independent advice and information on building performance, construction and fire safety in the United Kingdom. Research activities in building and construction were started in the 1920s and in fire research in the late 1940s. BRE was formed as a single organisation in 1972 and became an Executive Agency within the Department of the Environment (DOE), under the Government's "Next Steps" initiative, in April 1990. In November 1995, the Secretary of State for the Environment announced the appointment of consultants to advise on options for transferring BRE to the private sector. This transfer took place with effect from 20 March 1997 when the BRE management bid team was successful in acquiring BRE. The financial statements presented here cover the period 1 April 1996 – 19 March 1997 inclusive. Following a number of machinery of government changes, with effect from 29 May 2002, the Office of the Deputy Prime Minister took over responsibility for the accounts.

BRE operated within a Policy and Resources Framework laid down by the Secretary of State which set out the Agency's role and objectives, basis of operations, location, organisation, accountability to Parliament, management arrangements and financial and personnel management delegations. BRE had no separate legal identity from the Department of the Environment.

In its financial arrangements, BRE was a supply-financed Agency; Parliament thus authorised its expenditure in cash terms each year and authorised cash receipts which BRE generated to be appropriated in aid of that expenditure. At the end of each financial year, Appropriation Accounts were rendered to Parliament against the Vote Estimate. BRE operated within Section C Class VI Vote 5 of the Appropriation Accounts. The Appropriation Accounts are subject to audit by the Comptroller and Auditor General and may be examined by the Committee of Public Accounts. BRE could offset expenditure against receipts and was controlled on the net total. This control was supplemented by agreed performance targets and efficiency indicators. The accounts have been prepared in accordance with a direction given by the Treasury in pursuance of section 5(1) of the Exchequer and Audit Departments Act 1921.

Principal Activities

During 1996/97 most of BRE's work was funded by the Department of the Environment, Transport and the Regions (DETR) formed from the merger of the Departments of the Environment and Transport in June 1997. BRE provides much of the technical basis for Building Regulations and contributes to British, European and international codes and standards. Besides this, it also manages a major programme of information transfer for the Environmental and Energy Management Directorate (formerly the Energy Efficiency Office). Through these activities the quality and competitiveness of construction in the UK are enhanced and the environmental impact reduced. The operational structure of BRE is as follows:

Energy Efficiency

The main activities are directed towards supporting DETR's policy interests relating to energy use in buildings and the environmental consequences of that use, particularly with respect to CO₂ emissions. Much of the work is concerned with dissemination and promotion of energy efficiency measures and practice and is carried out by a dedicated unit – the Building Research Energy Conservation Support Unit.

Environment and Health

BRE leads the development of knowledge that informs advice on human requirements and the whole building solutions required to achieve them. The standard-setting product BREEAM and its derivatives – the Office Toolkit and the Environmental Standard for Homes – facilitate wider appreciation of the importance of superior environmental performance and give guidance on how this may be achieved.

Fire

The Fire Research Station (FRS) works with other Groups in BRE and in partnerships with industry to provide guidance on cost-effective standards of fire safety. While much of its work relates to construction, it also undertakes fire research in other areas, such as transport. FRS's capabilities embrace all aspects of fire safety, enabling it to play a prominent role in informing DETR's policy responsibilities, particularly with respect to the Building Regulations and in the development of national and international codes and standards.

Geotechnics and Structures

The Geotechnics and Structures Group provides expertise in the robustness and stability of structures, their supporting foundations and other ground-related issues affecting the health and safety of people in and around buildings. Most of the work programme supports the Building Regulations through suitable British and European design codes and standards. Industry is also assisted to adopt appropriate innovative construction processes and products and to provide routes to enhanced performance and competitiveness.

Construction and Materials

BRE's work on construction and materials is concerned to secure better life-cycle performance where "better" is measured in terms of quality and cost and covers such attributes as durability, environmental impact and sustainability. An important dimension is to improve the understanding of the process of construction and so identify the key opportunities for successful change and innovation.

International Activity

The principal aim of the International Division is to strengthen links with overseas organisations. This is facilitated by participation in construction industry trade missions, the securing of funding from the European Community and "attached worker" schemes whereby scientists and technicians from overseas achieve hands-on experience at BRE.

Cardington Laboratory

The Cardington Laboratory is the world's largest facility for construction and fire research. Programmes are developing in partnership with UK and European industry.

Construction Information

It is the Construction Information Unit's responsibility to apply research results through a variety of methods. Publications are marketed through Construction Research Communications Limited (jointly owned by Emap Business Communications and, until 19 March 1997, the Secretary of State for the Environment, for whom BRE acted. The Secretary of State's share of CRC was acquired by BRE Ltd on privatisation); enquiries from building professionals and members of the public are handled by the Advisory Service; a comprehensive programme of conferences, seminars and workshops is provided; and BRE is conducting work to establish the feasibility of a Construction Information Gateway which will be a single point of entry via the Internet to the industry's knowledge and services.

Performance Targets

As an Executive Agency within the Department of the Environment, BRE was required to meet a number of financial targets which had been agreed with the Department. The targets and outturn performance are set out in note 23 to the accounts.

Review

During the year under review BRE has continued to promote innovation and to improve practice in many and varied fields. Construction was completed on an office and seminar block (the Environmental Office) which will put into practice many of the BRE research projects and will achieve the top rating under BRE's Environmental Assessment Method. BRE's role in the development of DOE research strategies, and success in the competition to provide the Secretariat for the Construction Research and Innovation Strategy Panel (CRISP) further demonstrated the Establishment's ability not only to undertake research but also to identify ways in which research and innovation should develop.

The deficit for the year was £3,535,000 but this includes items not taken into account when comparing outturn performance with the target trading balance. Note 23 to the accounts explains this in more detail. Fixed assets to the value of some £842,000 were purchased during the year comprising, in the main, scientific facilities and information technology equipment.

Movements in Reserves

Reserves comprise the Investment Revaluation Reserve, relating to revaluation of the holding in BRE's associated undertaking CRC Ltd., Revaluation Reserve, relating to revaluation of fixed assets, and the General Fund, which represents the BRE balance with the former DOE. Detailed movements in reserve figures are shown in Notes 14, 15, 16 and 17 to the accounts.

Payment to Creditors

It is BRE's policy to make payments to its suppliers thirty days after receipt of the relevant invoice provided there has been satisfactory supply of the goods or services. This policy is contained within the BRE terms and conditions copies of which can be obtained from BRE Purchasing Services, Garston. The terms of payment are settled with suppliers when agreeing the terms of each transaction. Suppliers are made aware of such terms by virtue of their inclusion within BRE purchasing contracts or purchase orders. It is BRE policy to abide by the terms of payment.

At the 19 March 1997 the number of days' invoices outstanding was 24, calculated by dividing total amounts invoiced by suppliers by the invoices outstanding as at the 19 March 1997.

Senior Staff

Members of the Management Board during the period to 19 March 1997 were:

Mr R G Courtney	Chief Executive
Dr A B Birtles	Director, Environment Group
Dr V H C Crisp	Director, Buildings Energy Efficiency Group
Mr R M C Driscoll	Director (acting), Geotechnics and Structures Group
Ms A Elkeles	Director, Personnel
Mr J F Horan	Director, Finance
Mr M R Shaw	Director, Fire Research Station

During the period to 19 March 1997 the following Management Board members resigned – Mr N O Milbank (18 March 1997) and Dr W D Woolley (30 September 1996).

Disabled Persons

Although not bound by the 1944 Disabled Persons Act, BRE accepted the same responsibilities as other employers in relation to the employment of disabled persons. Disablement is not seen as a bar to recruitment or advancement, the test being the ability to perform the function. Whenever possible, suitable vacancies are identified for disabled staff taking into account any particular skills or special problems. Appropriate training is provided for disabled staff.

Civil Service Recruitment Code

BRE operated recruitment systems that conformed to the Civil Service Commissioners Recruitment Code, the fundamental principle of which is that appointments should be made on the basis of fair and open competition and selection on merit. BRE's recruitment systems were subject to periodic internal audit. The following statistics relate to the period ending 19 March 1997:

Recruits converted from casual to fixed term status	4
Recruits converted from fixed term to permanent status	1
Recruits with specialist skills appointed to fixed term status	4
Equal opportunities – successful women recruits at each level were:	
Fixed term appointments	4
Casual staff status	17
Ethnic minorities – successful candidates were:	
White	48
Unknown	6

During the period to 19 March 1997 there were no disabled recruitments and there were two fixed term appointments which were exceptions to fair and open competition.

Staff Involvement

BRE attaches importance to the process of consultation with staff and their representatives. It recognises existing Trade Unions and has developed constructive relationships with them. It also attaches importance to the need to make full use of the skills and talents of staff and to provide them with opportunities to contribute to decisions affecting their jobs. The Chief Executive chaired the Whitley and Joint Industrial Committees.

Information on matters of concern to employees affecting the performance of BRE is disseminated by written staff notices, supplemented by oral briefings on particularly important topics. News-sheets are issued on a weekly and quarterly basis.

Citizen's Charter

The launch of the Citizen's Charter in July 1991 had implications for all public bodies which directly serve members of the public. BRE's direct contact with the public is focused upon the Advisory Service and the Seminars Unit. In these areas, and more generally, BRE expressed a commitment to the principles of the Charter and in particular to providing:

- courteous service from identified staff;
- efficient, prompt attention to enquirers;
- responsiveness to views on standards of service;
- fast resolution where service may fall below the normal high standard.

Open Government

BRE adhered to the Code of Practice which came into effect for all the operations of the Department of the Environment on 5 April 1994.

Post Balance Sheet Events

The new owners of BRE are currently (September 2005) engaged in negotiating the disposal of freehold land at Princes Risborough.

Mavis McDonald
Accounting Officer
Dated: 12th October 2005

Statement of Agency's, Department's and Chief Executive's Responsibilities

Under Section 5 of the Exchequer and Audit Departments Act 1921, the Treasury have directed the Building Research Establishment Executive Agency to prepare a statement of accounts for each financial year in the form and on the bases set out in the accounts direction on page 26. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

The Accounting Officer for the former Department of the Environment appointed the Chief Executive of the Building Research Establishment Executive Agency as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he was answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting" (The Stationery Office). The appointment of the Chief Executive as Agency Accounting Officer ceased upon sale of the Building Research Establishment and the Office of the Deputy Prime Minister (previously the Department of the Environment, Transport and the Regions) has assumed responsibility for the preparation of the final accounts of the Agency.

In preparing the accounts the Department is required to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on a going concern basis, unless it is appropriate to presume that the Agency will continue in operation.

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

I certify that I have audited the financial statements on pages 10 to 25 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 15 and 16.

Respective responsibilities of the Department, the Chief Executive and the auditor

As described on page 8 the Department of the Environment, Transport and the Regions was responsible for the preparation of the financial statements. The Chief Executive of the Agency was responsible for ensuring the regularity of financial transactions and for the keeping of proper records until his appointment ceased upon the sale of the Agency. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion:

the financial statements give a true and fair view of the state of affairs of the Building Research Establishment Executive Agency at 19 March 1997 and of its deficit, total recognised gains and losses and cash flows for the period then ended and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by Treasury; and

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

See also my report on pages 29 to 31.

John Bourn
Comptroller and Auditor General

28 October 2005

National Audit Office
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Income and Expenditure Account

For the period ended 19 March 1997

	Notes	Total Operations 1996/97	Total Operations 1995/96
		<u>£'000</u>	<u>£'000</u>
Income from activities	2	37,126	40,481
Staff costs	3,4,18	(20,733)	(19,436)
Depreciation	8	(1,169)	(1,202)
Other operating expenses	5	(18,348)	(20,313)
Operating deficit before interest		(3,124)	(470)
Profit on disposal of assets		2	3
Interest receivable	6	36	35
Interest on capital	7	(449)	(253)
Deficit for the year		(3,535)	(685)
Deficit brought forward as previously reported		(2,469)	(1,784)
		<u>(6,004)</u>	<u>(2,469)</u>

All operations were continuing operations throughout 1996/97.

Statement of Total Recognised Gains and Losses
For the period ended 19 March 1997

	<u>1996/97</u>	<u>1995/96</u>
	£'000	£'000
Deficit for the financial year	(3,535)	(685)
Unrealised (deficit)/surplus on revaluation of fixed assets	(33)	77
Unrealised surplus on revaluation of investment	25	24
Restatement of debtor and creditor balances	-	1,223
Total gains and losses recognised since the date of the last financial statements	<u>(3,543)</u>	<u>639</u>

Balance Sheet

As at 19 March 1997

	Notes	As at 19 March 1997		As at 31 March 1996 Restated
		£'000		£'000
Fixed assets	8,9	4,435		4,891
Investment	10,14	183		158
Current assets:				
Debtors – falling due within				
one year		11	5,329	4,075
– falling due after more				
than one year	11	255	374	
Amounts recoverable on contracts	12	5,533	2,017	
Cash in hand		8	2	
			11,125	6,468
Creditors due within one year	13	(6,200)	(6,246)	
Provision for liabilities and charges	18	(800)	(629)	
			(7,000)	(6,875)
Net current assets			4,125	(407)
Total assets less current liabilities			8,743	4,642
Financed by:				
Capital and reserves:				
Investment Revaluation Reserve	14	8	(17)	
Revaluation Reserve	15	205	238	
General Fund	16	8,530	4,421	
			8,743	4,642
			8,743	4,642

Mavis McDonald
Accounting Officer
Dated: 12th October 2005

Cash Flow Statement

For the period ended 19 March 1997

Cash Flow Statement

	1996/97	1995/96 Restated
	<u>£'000</u>	<u>£'000</u>
Net cash (outflow)/inflow from operating activities	(5,268)	2,091
Returns on investments and servicing of finance (note 1)	36	35
Capital expenditure (note 1)	(769)	(951)
Financing (note 1)	6,007	(1,177)
Increase/(decrease) in cash	<u>6</u>	<u>(2)</u>

Reconciliation of net cash flow to movement in net funds

Increase/(decrease) in cash in period	6	(2)
Opening net funds	<u>2</u>	<u>4</u>
Closing net funds	<u>8</u>	<u>2</u>

Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	1996/97	1995/96
	<u>£'000</u>	<u>£'000</u>
Operating deficit before interest	(3,124)	(470)
Early retirement benefits	(985)	(64)
Increase in early retirement provision not involving the movement of funds	1,392	256
Adjustment to fixed assets opening balance	–	16
Depreciation	1,169	1,202
Fixed assets written off or reclassified	26	14
Increase in debtors	(1,135)	(238)
Bad debts written off	–	30
Increase in amounts recoverable on contracts	(3,516)	(36)
(Decrease)/increase in creditors	(46)	594
Notional charges:		
Insurance	25	25
Departmental services	241	340
Notional audit fee	38	37
Early retirement costs	<u>647</u>	<u>385</u>
	951	787
Net cash (outflow)/inflow from operating activities	<u>(5,268)</u>	<u>2,091</u>

Note 1 – Gross cash flow

	<u>1996/97</u>		<u>1995/96</u>
	£'000		£'000
Returns on investments and servicing of finance			
Interest received	36		35
Capital expenditure			
Payments to acquire fixed assets	(773)		(963)
Proceeds of disposal of fixed assets	<u>4</u>		<u>12</u>
	(769)		(951)
Financing			
Funding of property disposal costs	–		(256)
Minor works – funded on Departmental Administration Vote	(589)		(945)
Deficit funded on vote	7,401		173
Early retirement benefits funded on Civil Superannuation Vote	(237)		(149)
Major works – funded on Section A of Departmental Administration Vote	<u>(568)</u>		<u>–</u>
	<u>6,007</u>		<u>(1,177)</u>

Note 2: Early Retirement Benefits/Provisions

Early retirement benefits of £985,000 (1995/96: £64,000) represents payments made to early retirees less any funding made from the Civil Superannuation Vote (see Note 1e), and less any pre-funding made under rules announced by the Treasury in November 1992 (see Note 18).

The increase in early retirement provision not involving the movement of funds of £1,392,000 (1995/96: £256,000) relates to the additional provision required in order to meet the full future cost of early retirees.

Note 3: Reconciliation to Appropriation Accounts (Section C Class VI Vote 5)

	<u>1996/97</u>		<u>1995/96</u>
	£'000		£'000
Appropriations in Aid	33,062		39,989
Less Running Costs and Other			
Current Expenditure	(38,286)		(37,576)
Capital Expenditure	<u>(2,177)</u>		<u>(2,586)</u>
	(40,463)		(40,162)
Deficit funded on Vote	<u>(7,401)</u>		<u>(173)</u>

Notes to the Accounts

1. Accounting Policies

Accounting Convention

- 1a. These accounts have been prepared under the historical cost convention, modified for the revaluation of fixed assets to reflect the annual change in the appropriate cost index and take account of applicable accounting standards.

Fixed Assets

- 1b. BRE paid a rent, at market rates, to Property Holdings (Department of the Environment) for land and buildings constituting the estate occupied, with the exception of occupancy of land and buildings at East Kilbride, Scotland where payment was made to Scottish Enterprises. No land and buildings are therefore included in the accounts. BRE was required to manage the estate and to secure all funding necessary for major and minor accommodation works which add to the value of the estate. These expenditures are excluded from the financial statements. Minor new works are accounted for on the BRE Section of the Departmental Administration Vote, major works expenditure falling on Section A of the Departmental Administration Vote. Site maintenance expenditure is not capitalised and is classed as running costs.

Depreciation

- 1c. Other tangible assets costing £1,000 or more and which have a useful economic life of more than one year are capitalised. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset over its estimated useful life on a straight line basis, as shown below.

Plant and machinery	– IT equipment	7 years
	– Telecommunications equipment	10 years
	– Other plant and machinery	7 years
Fixtures and fittings	–	7 years
Motor vehicles	– Commercial vehicles and cars	6 years
	– Fork lift trucks	10 years

Amounts Recoverable on Contracts

- 1d. Amounts recoverable on contracts are valued at total cost to date including an allowance for overheads, less any amounts invoiced and less foreseeable losses. The movement in the value of amounts recoverable on contracts is accounted for within turnover.

Early Retirement Costs

- 1e. The Civil Service White Paper, "Continuity and Change" (Cm 2627), published in July 1994, announced new arrangements for funding early retirement costs of civil servants departing between 1 October 1994 and 19 March 1997. Under these arrangements 20 per cent of the cost will normally be borne by Agencies and Departments and the remaining 80 per cent, which would otherwise fall upon Departments' running costs, will be met centrally from the Civil Superannuation Vote. For 1996/97 the 80:20 arrangements applied only after the Department of the Environment had used all its existing 1996/97 expenditure provision for early retirement costs.

Government policy is to include the full cost of an Agency's activities in its accounts even where, as in this case, some of these costs are borne elsewhere in Government. Normal accounting practice is to provide for the full cost of early retirement of employees in the year in which the early retirement decision is made. However, for retirements covered by the 80:20 arrangements, such treatment would not reflect the fact that 80 per cent of the cost will be borne by the Civil Superannuation Vote rather than the Agency. Consequently, the Treasury has issued a direction that, whereas the 20 per cent element borne by the Agency should be charged to the Income and Expenditure account immediately and taken to a provision on the balance sheet, the annual payments from the Civil Superannuation Vote in respect of the 80 per cent element should be reflected (as notional costs) in the Agency's Income and Expenditure account when actually paid.

Note 1 (continued)

If BRE were to follow Government policy on accounting practice and charge the Income and Expenditure Account with the full liability in the year in which it is first recognised, the charge to the Income and Expenditure Account for 1996/97 would have been £2,114,000. (1995/96: £946,000) For more details see Note 4.

Foreign Currencies

- 1f. Any exchange differences resulting from receipts in foreign currencies are taken to individual project trading accounts. Payments to suppliers were made by DOE's payment organisation; any BRE-related differences which may occur are taken to DOE's departmental accounts.

Liquid Resources

- 1g. BRE has no liquid resources as defined by FRS1 (revised 1996).

Going Concern

- 1h. The financial statements are prepared on a going concern basis, notwithstanding the sale of BRE, given that the business was transferred to the purchaser in its entirety and is expected to remain a going concern for the foreseeable future.

2. Income from activities

Income from activities represents the invoiced amount of research and technical consultancy, and an adjustment to take account of the change in year end amounts recoverable on contract valuations. Income is stated net of value added tax and similar taxes.

	<u>1996/97</u>	<u>1995/96</u>
	£'000	£'000
Analysis of income:		
Department of the Environment:		
Housing	1,553	1,928
Construction Policy	17,341	18,798
Environmental Protection & Planning	1,488	2,202
Chief Executive's Allocation	2,378	2,316
Energy Efficiency Office	7,572	8,414
Miscellaneous DOE	791	777
	<u>31,123</u>	<u>34,435</u>
Other Government Departments:		
Home Office	52	31
Forestry Commission	123	143
Overseas Development Administration	8	55
Department of Trade & Industry	1,181	1,386
English Heritage	17	88
Ministry of Defence	219	165
Other	281	200
	<u>1,881</u>	<u>2,068</u>
Non-Exchequer	3,225	3,419
Publication Sales and Seminars	197	165
Miscellaneous – Income from tenants	294	290
– Other	406	104
	<u>700</u>	<u>394</u>
	<u>37,126</u>	<u>40,481</u>

3. Staff Costs

The Chief Executive and the senior staff entitled Directors, were members of recognised grades of the Civil Service and were ordinary members of the Principal Civil Service Pension Scheme. The Chief Executive's total actual remuneration, including bonus but excluding pension contributions, was £74,345. (1995/96: £71,050)

The salaries of Directors, excluding the Chief Executive, were as follows:-

	1996/97	1995/96
Band Range		
£10,001 – £20,000	–	1
£20,001 – £30,000	–	2
£30,001 – £40,000	–	–
£40,001 – £50,000	4	2
£50,001 – £60,000	4	4
	£'000	£'000
Aggregate emoluments of Directors and the Chief Executive including pension contributions	550	522

Loans to Directors:

At the 19 March 1997 there were no amounts outstanding from directors in respect of advances against travel and subsistence. (1995/96: £500)

Loans to Employees:

The number of employees who have loans outstanding in excess of £2,500 is 4 (1995/96: 5) and the total amount outstanding at 19 March 1997 is £21,284 (1995/96: £27,241)

The salaries of higher paid employees, excluding the Chief Executive and Directors, were as follows:-

	1996/97	1995/96
Band Range		
£30,001 – £40,000	91	87
£40,001 – £50,000	15	18
£50,001 – £60,000	–	–

The average numbers of staff employed during the year were:

	1996/97	1995/96
Management	27	27
Support	198	223
Information Transfer	30	25
Research and Consultancy	440	470
	<u>695</u>	<u>745</u>

Staff costs were:

	1996/97	1995/96
	£'000	£'000
Wages and salaries	15,311	15,427
Social security	1,206	1,230
Other pension	2,176	2,155
Exceptional Item: Early retirement (see note 4)	2,040	644
	<u>20,733</u>	<u>19,456</u>
Less cost transferred to Minor New Works and costs associated with property disposal	–	20
	<u>20,733</u>	<u>19,436</u>

All employees were Civil Servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. For 1996/97, contributions of £2,175,358 (1995/96: £2,154,848) were paid to the Paymaster General at rates varying between 19.5% and 11% (1995/96: 19.5% and 11%) for non-industrial staff and 12% (1995/96: 12%) for industrial staff. These rates are calculated from time to time by the Government Actuary.

The costs associated with property disposal are costs initially incurred by BRE, and subsequently passed on to DOE, which relate to the disposal of a property previously occupied, but not owned, by BRE.

4. Early Retirement

The full cost of early retirement decisions taken this year is estimated to be £1,913,000 (1995/96: £888,000). The charge to this year's Income and Expenditure account represents the amount funded by BRE £1,193,000 (1995/96: £178,000); a notional charge for payments made from the Civil Superannuation Vote £647,000 (1995/96: £385,000); and an amount funded by BRE £200,000 (1995/96: £81,000) relating to retirements made in prior years. The remaining cost of retirements made this year £386,000 (1995/96: £430,000) will be met from the Civil Superannuation Vote and will be included as a notional cost in the years in which payments are made.

	<u>1996/97</u>	<u>Future Years</u>	<u>Total</u>
	£'000	£'000	£'000
Cost met by BRE	1,193	–	1,193
Notional charge	647	386	1,033
Cost met by BRE for prior year retirements	200	–	200
	<u>2,040</u>	<u>386</u>	<u>2,426</u>

5. Other Operating Expenses

	<u>1996/97</u>	<u>1995/96</u>
	£'000	£'000
Accommodation	4,137	4,862
Expenditure directly charged to customers	4,975	5,059
Extra-mural contracts charged to customers	5,056	6,226
Insurance	25	25
Departmental services	241	340
(Decrease)/increase in provision for bad and doubtful debts	(74)	26
Bad Debts written off	–	30
Items of plant and equipment written off	26	31
Notional audit fee	38	37
Other operating expenditure	3,924	3,677
	<u>18,348</u>	<u>20,313</u>

The above totals include travel, subsistence and customer hospitality of £22,808 (1995/96: £21,832) for Board Members and £1,079,153 (1995/96: £1,131,632) for all other employees.

6. Interest Receivable

This represents the "profit" element resulting from the advance capital funding of early retirements.

7. Interest On Capital

The charge for notional interest on capital is calculated using the appropriate Treasury rate of 6% applied to the average value of fixed assets and working capital.

8. Fixed Assets

	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Costs or valuation				
at 1 April 1996	11,346	280	203	11,829
Additions	694	79	–	773
Disposals during year	(6)	–	–	(6)
Revaluation in year	(55)	–	–	(55)
Other movements	(282)	–	–	(282)
At 19 March 1997	11,697	359	203	12,259
Depreciation				
at 1 April 1996	6,635	149	154	6,938
Disposals during year	(5)	–	–	(5)
Provided during year	1,121	39	9	1,169
Surplus on revaluation	(22)	–	–	(22)
Other movements	(256)	–	–	(256)
At 19 March 1997	7,473	188	163	7,824
Net book value at 19 March 1997	4,224	171	40	4,435
Net book value at 1 April 1996	4,711	131	49	4,891

Other movements comprise items reclassified or scrapped.

9. Intangible Assets

BRE has acquired no goodwill and does not treat its reputation or name as assets.

10. Investment

The investment relates to BRE's holding in Construction Research Communications Limited (CRC). CRC has total issued ordinary shares of 357,142 of which BRE owns 107,141 (29.9995%).

The trading results of CRC are as follows:

	1st April 1996 to 19 March 1997	2 April 1995 to 31 March 1996
	£'000	£'000
Share of profits of associate	42	36
Less tax on profits on ordinary activities	(17)	(12)
Share of profits after tax of associate	25	24
Share of aggregate net profits retained by associate	54	29

11. Debtors

	1996/97	Restated 1995/96
	<u>£'000</u>	<u>£'000</u>
Trade debtors	2,993	1,559
Prepayments	96	121
Advances to employees	53	63
Prepayment relating to early retirement benefits	347	547
Value Added Tax	–	486
Other	2,095	1,673
	<u>5,584</u>	<u>4,449</u>

The 1995/96 comparative figures have been re-stated to show a corrected position relating to trade debtors (£55,000) and other debtors (£1,568,000).

Advances to employees includes housing advances which fall due as follows:

	1996/97	1995/96
	<u>£'000</u>	<u>£'000</u>
Falling due within one year	5	4
Falling due after more than one year	21	27

The prepayment relating to early retirement benefits is the amount of advance funding to purchase a future income stream on an annuity basis falling due as follows:

	1996/97	1995/96
	<u>£'000</u>	<u>£'000</u>
Falling due within one year	113	200
Falling due after more than one year	234	347

12. Amounts Recoverable on Contracts

	1996/97	1995/96
	<u>£'000</u>	<u>£'000</u>
Amounts recoverable on contracts	5,533	2,017

13. Creditors Due Within 1 Year

	1996/97	Restated 1995/96
	<u>£'000</u>	<u>£'000</u>
Restated		
Trade creditors	1,782	3,634
Accruals	2,199	964
Payments received in advance	1,329	1,219
Other	890	429
	<u>6,200</u>	<u>6,246</u>

The 1995/96 comparative figures have been re-stated to show a corrected position relating to unresolved bank items in other creditors (£400,000).

14. Investment Revaluation Reserve

	<u>1996/97</u>	<u>1995/96</u>
	£'000	£'000
Opening balance	(17)	(41)
Movement in year	25	24
Closing balance	8	(17)

The movement in the year reflects the revaluation of the investment in CRC in accordance with Treasury guidelines. Valuation is based on 29.9995% of the net assets of CRC as at 19 March 1997.

15. Revaluation Reserve

	<u>1996/97</u>	<u>1995/96</u>
	£'000	£'000
Opening balance	238	161
(Deficit)/surplus on revaluation in year	(55)	106
Utilised in year	22	(29)
	205	238

16. General Fund Movement

	<u>1996/97</u>	<u>1995/96</u>
	£'000	£'000
Opening balance	3,198	3,757
Restatement of opening balances	1,223	16
Deficit for year	(3,535)	(685)
Financing notionals	1,400	1,040
Funding of minor works	(589)	(945)
Deficit surrendered on Vote	7,401	173
Early retirement advanced funding	-	98
Funding of property disposal costs	-	(256)
Additional funding of major works	(568)	-
	8,530	3,198
Restatement of closing balance	-	1,223
	8,530	4,421

The funding of property disposal costs £Nil (1995/96: £256,000) relates to costs initially incurred by BRE, and subsequently passed on to DOE, in connection with the disposal of property previously occupied, but not owned, by BRE.

17. Reconciliation of Movements in Government Funds

	1996/97	Restated 1995/96
	<u>£'000</u>	<u>£'000</u>
Deficit for the financial year	(3,535)	(685)
Restatement of opening balances	1,223	16
Other recognised (losses) and gains in year	(8)	101
Financing notionals	1,400	1,040
Funding of minor works	(589)	(945)
Funding of property disposal costs	–	(256)
Deficit surrendered on Vote	7,401	173
Early Retirement advanced funding	–	98
Additional funding of major works	(568)	–
Net increase/(reduction) to Government funds	<u>5,324</u>	<u>(458)</u>
Opening Government funds	3,419	3,877
Closing Government funds	8,743	3,419
Restatement of closing balances	–	1,223
	<u>8,743</u>	<u>4,642</u>

Government funds comprise the Revaluation Reserves and the General Fund.

18. Provision for Charges

BRE operated an Early Retirement Scheme which gave retirement benefits to certain qualifying employees. These benefits conformed to the rules of the Principal Civil Service Pension Scheme. The costs of these benefits until normal retiring age of the employees retired under the Early Retirement Scheme were borne by BRE up until 19 March 1997. Future liabilities under the Scheme will be borne by The Paymaster General.

The total pensions liability up to normal retiring age in respect of each employee was charged to the income and expenditure account in the year in which the employee took early retirement and a provision for pension payments was created. Pensions and related benefits payments to the retired employee until normal retiring age were then charged annually against the provision.

In 1996/97 £2,040,000 (1995/96: £644,000) was charged to the income and expenditure account and credited to the pensions provision. £1,221,000 (1995/96: £310,000) was charged against the provision to fund pensions and related benefits payments.

Under rules announced by the Treasury in November 1992, bodies may advance fund all or part of their outstanding pensions liability at 31 March each year, by making lump sum payments to the Paymaster General's Office. This advance funding is shown as a prepayment in the balance sheet and is written down as the funding matures in accordance with calculations made by the Government Actuary's Department.

BRE has advance funded part of the total pensions liability at 19 March 1997 by way of payments of £996,000 (1995/96: £996,000). The remaining prepayment in respect of the pensions liability at 19 March 1997 was £347,000 (1995/96: £547,000).

19. Contingent Liabilities**Transfer of Undertakings Protection of Employees:**

Under the terms of the Agreement between the Secretary of State and Emap Business Communications (Emap) there are four BRE employees who transferred to Construction Research Communications Ltd (CRC) in accordance with Transfer of Undertakings Protection of Employees (TUPE). BRE has indemnified CRC and Emap as follows:

- (a) in relation to the transferred employees in respect of any breach of the employees' contracts which may have occurred before transfer, and
- (b) in relation to any non-transferring employees, in respect of any claim they might have under TUPE. It is most unlikely that any such claim will be made. Non-transferring employees have long term jobs at BRE and before any claim was made they would have to resign on grounds amounting to a constructive unfair dismissal, i.e. that they should have been transferred in accordance with TUPE but were not.

Although the potential liability cannot be accurately quantified it is unlikely to exceed £200,000.

Termination of Agreement:

If BRE gives notice to terminate the Agreement with Emap, BRE will buy from Emap the Emap shareholding which, during the first three years of the Agreement in the case where no dividends have been paid, is valued at the lesser of 70% of the market value or £700,000. The market value at the end of year three in the business plans is projected to be £1m.

After the initial three year period, the compensation is calculated as the lesser of 70% of the market value or such sum in substitution of £700,000 as the parties may, with reference to the CRC current business plans, estimate the value of CRC. In default of the Agreement the £700,000 will be increased or decreased in proportion to the increase or decrease in the Retail Prices Index between 1 January 1995 and the termination date.

The above sums are adjusted where gross dividends have been paid to the two major shareholders of CRC.

There are reciprocal termination payments to BRE if Emap wish to terminate the Agreement. The BRE view is that since CRC has returned a reasonable profit in the first two years of business and is forecast to do so in the coming year, that neither BRE nor Emap would wish to terminate the Agreement. These termination clauses have been drafted in such a way as to protect the interest of both the shareholders. In the event that CRC performs far better than planned, the value of the business will rise accordingly which may create the circumstances where either shareholder would view that it is more beneficial to terminate the Agreement and carry on the business without the other partner.

20. Capital Commitments

As at 19 March 1997 the following commitments for capital expenditure existed:

	<u>1996/97</u>	<u>1995/96</u>
	£'000	£'000
Contracted	139	216

21. Related Party Transactions

BRE was an Executive Agency of the Department of the Environment. The Department of the Environment is regarded as a related party. During the year BRE has had material transactions with the Department in respect of research performed for the Department. The amounts involved are shown in Note 2.

In addition BRE has had a significant number of material transactions with other Government Departments and other central Government bodies. These are also detailed in Note 2.

Note 21 (continued)

As stated in Note 10 to the Financial Statements, BRE owns 29.9995% of the issued ordinary shares in CRC with the balance of 70.0005% being owned by Emap Business Communications (Emap). During the period to 19 March 1997 BRE entered into transactions in the normal course of business, with CRC and companies within the Emap group totalling £146,551 and £19,485 respectively.

During the period none of the Board Members, members of the key management staff or other related parties has undertaken any material transactions with BRE.

22. Segmental Analysis

The Building Research Establishment is required, in accordance with the Treasury's Fees and Charges Guide, to disclose performance results for the areas of its activities where fees and charges are made.

The segmental analysis is not intended to meet the requirements of the Statement of Standard Accounting Practice 25: Segmental Reporting. Income from activities, operating costs, operating surplus/(deficit) interest on capital, interest receivable and profit/(loss) on disposal of fixed assets, attributable to the following activities are:

	<u>1996/97</u>	<u>1996/97</u>	<u>1996/97</u>
	£'000	£'000	£'000
	Research	Seminars	Total
Income from activities	36,916	210	37,126
Internal recharges	13	10	23
Total Income	36,929	220	37,149
Operating costs	(39,968)	(282)	(40,250)
Internal recharges	(10)	(13)	(23)
Total operating costs	(39,978)	(295)	(40,273)
Operating deficit	(3,049)	(75)	(3,124)
Profit on disposal of assets	2	-	2
Interest on capital	(446)	(3)	(449)
Interest receivable	36	-	36
Deficit for year	(3,457)	(78)	(3,535)
	<u>1995/96</u>	<u>1995/96</u>	<u>1995/96</u>
	£'000	£'000	£'000
	Research	Seminars	Total
Income from activities	40,388	93	40,481
Internal recharges	25	42	67
Total Income	40,413	135	40,548
Operating costs	(40,609)	(342)	(40,951)
Internal recharges	(42)	(25)	(67)
Total operating costs	(40,651)	(367)	(41,018)
Operating deficit	(238)	(232)	(470)
Profit on disposal of assets	3	-	3
Interest on capital	(249)	(4)	(253)
Interest receivable	35	-	35
Deficit for year	(449)	(236)	(685)

For the purpose of segmental analysis income from activities and costs include internal recharges. Overhead elements have been apportioned on planned rather than outturn figures.

23. Financial Targets

In summary, BRE's performance against its targets for the period ending 19 March 1997 was as follows:

	<u>1996/97</u>	<u>1996/97</u>	<u>1995/96</u>	<u>1995/96</u>
	£'000	£'000	£'000	£'000
	Outturn	Target	Outturn	Target
Turnover:				
DOE	31,123	29,904	34,435	33,362
Other Government Departments	1,881	2,033	2,068	2,162
Non-Exchequer:				
TC Commissions and EC programme	2,958	3,448	3,188	3,538
Partners in Technology	267	428	231	370
Publications and Seminars Income	197	309	165	350
Trading balance as shown on the Income and Expenditure Account ¹	(3,535)		(685)	
Trading balance for comparison with target ¹	(1,492)	(115)	64	0
Net (cost) on the BRE Section of the DOE Administration Vote	(7,401)	(527)	(173)	(237)
	Outturn	Target	Outturn	Target
	<u>1996/97</u>	<u>1996/97</u>	<u>1995/96</u>	<u>1995/96</u>
	%	%	%	%
Non-Exchequer earnings as a percentage of total income from research and consultancy commissions both net of directly recharged expenditures and services	8.87%	9.0%	8.1%	9.2%
Annual change in the unit cost ratio for research and technical consultancy commissions ²	5.51%	3.67%	(2.9%)	0.4%

Note 1

The trading balances shown have been derived from the balances appearing on the Income and Expenditure Account so that target and actual are reported on a comparable basis. The accounts show an operating deficit of £3,535,000 (1995/96: £685,000) but include factors not taken into account when the target was set; £42,000 (1995/96: £143,000) in respect of the depreciation cost of assets still in use but previously written off and depreciation of asset revaluations; profit on disposal of assets £2,000 (1995/96: £3,000); interest receivable £36,000, (1995/96: £35,000); exceptional costs relating to early retirements £2,040,000 (1995/96: £644,000) These excluded items are not deemed to be part of normal trading activities and, hence, have been excluded from the targets and actuals.

Note 2

The unit cost ratio compares the cost of providing research and technical consultancy commissions (net of any directly recharged expenditures and services) to the cost of staff time that is devoted directly to the fulfilment of these commissions. It is, in essence, an overhead ratio.

Annex 1

Accounts direction given by The Treasury

The Treasury, in pursuance of section 5(1) of the Exchequer and Audit Departments Act 1921, hereby gives the following Direction.

1. The statement of accounts which it is the duty of the Building Research Establishment (BRE) to prepare in respect of the financial year ended 31 March 1994 and in respect of any subsequent financial year shall comprise:

- (a) a foreword;
- (b) an income and expenditure account;
- (c) a balance sheet;
- (d) a cash flow statement; and
- (e) a statement of total recognised gains and losses

including in each case such notes as may be necessary for the purposes referred to in the following paragraphs.

2. The BRE shall observe all relevant accounting and disclosure requirement given in "Government Accounting" and in the Treasury booklet "Trading Accounts: a Guide for Government Departments and Non-Departmental Public Bodies" (the "Trading Accounts booklet") as amended or augmented from time to time.

3. The statement of accounts referred to above shall give a true and fair view of the income and expenditure, state of affairs and cash flow of the BRE. Subject to the foregoing requirement, the statement of accounts shall also, without limiting the information given and as described in Schedule 1 of this Direction, meet:

- (a) the accounting and disclosure requirements of the Companies Act;
- (b) best commercial accounting practice including accounting standards issued or adopted by the Accounting Standards Board, with the exception of the requirement contained in FRS3 for the inclusion of a note showing historical cost profits and losses;
- (c) any disclosure and accounting requirements which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view; and
- (d) any additional disclosure requirements contained in "The Fees and Charges Guide", in particular those relating to the need for segmental information for different services or forms of service provided;

insofar as these are appropriate to the BRE and are in force for the financial period for which the statement of accounts is to be prepared.

4. Additional disclosure requirements are set out in Schedule 2 of this Direction.
5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - (a) fixed assets at their value to the business by reference to current costs; and
 - (b) stocks valued at the lower of cost, or net current replacement cost if materially different, and net realisable value.

Signed: T J Burr
Treasury Officer of Accounts

Dated: 21 June 1994

Schedule 1

Application of the Companies Act's requirements

1. The disclosure exemptions permitted by the Companies Act in force for the financial period for which the statement of accounts is to be prepared shall not apply to the BRE unless specifically approved by the Treasury.
2. The foreword shall contain the information required by the Companies Act to be disclosed in the Directors' Report, to the extent that such requirements are appropriate to the BRE.
3. In preparing its income and expenditure account and balance sheet, the BRE shall adopt respectively format 2 and format 1 prescribed in Schedule 4 to the Companies Act to the extent that such requirements are appropriate to the BRE. Regard should be had to the examples in Annex C of the Trading Accounts booklet, in particular the need to strike the balance sheet totals at "Total Assets less Current Liabilities".
4. The foreword and balance sheet shall be signed and dated.
5. The BRE prepares its accounts under the modified historical cost convention, but is exempt from providing the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act.

Schedule 2

Additional disclosure requirements

1. The foreword shall state that the accounts have been prepared in accordance with a direction given by the Treasury in pursuance of section 5(1) of the Exchequer and Audit Departments Act 1921.
2. The foreword shall include a brief history of the BRE and its statutory background. Regard should be had to Annexes B and C of the Trading Accounts booklet.
3. The notes to the accounts shall include, inter alia, details of the key corporate targets set by the Secretary of State together with an indication of performance achieved.
4. The Accounts Direction shall be reproduced as an appendix to the accounts.

Report of the Comptroller and Auditor General

Background

1. The Building Research Establishment Executive Agency (BRE) was established in 1972 and became an executive agency of the former Department of the Environment (the Department) in April 1990. Its main functions were to provide the technical basis for building regulations, and advice to enhance the quality and competitiveness of construction in the United Kingdom and reduce its environmental impact. Following Machinery of Government Changes, the Office of the Deputy Prime Minister ("the Office") is now responsible for finalisation of the former Agency's affairs.
2. In November 1995 the Secretary of State for the Environment announced the appointment of consultants to advise him on options for transferring BRE to the private sector. The business was subsequently sold to an employee and management buyout team on 19 March 1997. The privatised business continues to trade as BRE and is owned by the BRE Trust (formerly the Foundation for the Built Environment) (the purchaser).
3. My report below sets out the background to the sale and the impact on the preparation of final BRE agency accounts.

Background to the sale

4. The terms of the BRE sale were set out in the Assets Purchase Agreement dated 15 March 1997. The Assets Purchase Agreement and all other legal documents associated with the sale of BRE were drawn up for the Department by commercial lawyers with previous commercial experience of privatisations.
5. The total purchase price was set at £1,700,000 plus an Adjustment Amount, and any amounts payable pursuant to clawback clauses relating to rates and intellectual property. The Adjustment Amount was the amount by which the aggregate net current assets at 19 March 1997, as determined by the Completion Accounts to be prepared by the purchaser, exceeded or fell short of negative £1,142,000 (net liabilities of £1,142,000). The Assets Purchase Agreement further provided that the Completion Accounts were to be prepared within two months of the sale, in accordance with principles set out in the Completion Accounting Policies (CAP) Memorandum.
6. Upon privatisation of BRE, the Department received £1,700,000 as initial consideration from the purchaser. In total the purchaser has paid £6,767,209.10 for the Agency as follows:

Sum received	Date	Details
£1,700,000	19 March 1997	Purchase consideration
£1,500,000	25 June 1997	First advance payment of "Adjustment Amount"
£2,000,000	15 June 2000	Second advance payment of "Adjustment Amount"
£320,812	28 June 2002	Rates clawback payment
£39,649.43	16 October 2002	Interest due on rates clawback payment
£1,206,747.67	31 March 2003	Third payment of "Adjustment Amount"
£6,767,209.10		

Disagreement over the sale price of the business

7. The purchaser produced a set of completion accounts on 15 August 1997 which were subject to audit, and to significant discussion and negotiation between the purchaser and the Department. These negotiations continued until November 2000. Some 24 changes were made to the completion accounts, including:
 - a. the purchaser requested that liabilities in respect of remedial accommodation works at the BRE site at Garston, which crystallised after the privatisation, be reflected in the closing balance sheet; and
 - b. The Department's initial Stock Valuation for assets transferred to the purchaser of £250,000 was reduced to £144,000 following discussions between the parties.

8. Revised draft Completion Accounts were provided by the purchaser in November 2000 for audit, but there was insufficient evidence to support a number of the adjustments made in those accounts. The Department sought further information from the purchaser including supporting accounting records. Following resolution of these matters, the purchaser produced a revised, agreed set of Completion Accounts on 16 December 2002 which showed an outstanding Adjustment Amount due to the Office of £1,206,747. This amount was paid in March 2003.
9. The Assets Purchase Agreement also included two clawback clauses, requiring the purchaser to share with the Department specific gains during the first five years after privatisation.
 - a. Under the first clause, the Department was entitled to receive from the purchaser 50% of the aggregate of net receipts for business intellectual property in excess of £400,000 during this period. No sums were received in respect of this clawback clause.
 - b. Under the second clause, the Department was due to receive 50% of the sum of the amount by which the non-domestic rates fell below £800,000 and a Property Variation Amount. The Office received a total of £360,461 from the purchaser under the second clawback clause during 2002.

Impact on the preparation of final accounts for Parliament

10. The Accounting Officer of the Department was responsible for preparation of the accounts for BRE from 1 April 1996 to the date of sale. As the accounting records were transferred to the business, and in accordance with the Assets Purchase Agreement, the purchasers of the business were required to prepare accounts on the Accounting Officer's behalf. The completion of the negotiations between the Department and the purchaser over the value of the transferred business, as described above, delayed the production of the 1996-97 BRE Completion Accounts. Negotiations related mainly to the valuation of debtors, creditors and accruals. The impact on the final balance sheet of BRE of the adjustments ultimately agreed in the Completion Accounts was £1,392,148 in gross terms, increasing net assets, and hence consideration receivable by the Department, by £845,261.
11. Machinery of Government Changes also impacted on finalisation of the Completion Accounts. Responsibility for preparation of the Completion Accounts:
 - a. Initially rested with the Department of the Environment;
 - b. Was transferred to the Department of the Environment, Transport and the Regions in May 1997;
 - c. Was transferred to the Department of Transport, Local Government and the Regions in June 2001; and
 - d. Was transferred to the Office of the Deputy Prime Minister in May 2002.
12. Under the Exchequer and Audit Departments Act 1921, the Department was required to submit the final accounts for the Agency to me for audit by 30 November 1997. The accounts should have been laid before Parliament by 31 January 1998.
13. As noted above, although Completion Accounts were first produced by the purchasers on 15 August 1997, it took over 3 years for the Department and the purchaser to conclude negotiations on the amounts to be reflected in those accounts, and hence on the final purchase consideration payable. Further, the revised accounts then produced in November 2000 lacked documentation to support adjustments reflected in the accounts.
14. In undertaking their audit, my staff worked closely with the Department to secure sufficient audit evidence to support the adjustments, including obtaining additional accounting records from the purchaser. A revised, agreed set of Completion Accounts were provided on 16 December 2002. My staff also sought evidence to support the sum received under the clawback arrangements referred to in paragraph 9 above, and to confirm that no sums were receivable under the first clawback relating to intellectual property. In the absence of evidence to support completeness of these receipts within the Department, in June 2003 my staff sought confirmation from the purchaser's external auditors. The external auditors confirmed in November 2003 that payments by the purchaser were in accordance with the provisions of the Assets Purchase Agreement.

17. Delays in completion of the accounts and hence my audit have also arisen due to:
- Machinery of Government Changes noted above; and
 - Changes in key officials in the Departments responsible over the time period, who also faced pressures from other departmental priorities such as the preparation and laying of annual resource accounts.
18. The delays in preparing and finalising the Completion Accounts have not impacted on the timeliness of receipt of the purchase consideration from the purchaser. The purchaser paid instalments of the consideration due at regular stages throughout the negotiations, and monies due under the clawback provisions referred to in paragraph 9 above, were received within seven months of the fifth anniversary of the completion date (the cut off point contained in the Assets Purchase Agreement).

John Bourn
Comptroller and Auditor General

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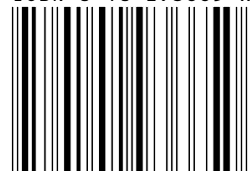
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