

# **Home Office Resource Accounts**

## **2006-07**

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**Home Office**

**Resource Accounts  
2006-07**

**(For the year ended 31 March 2007)**

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## Annual Report

### SCOPE

These accounts relate to the Home Office, for the year ended 31 March 2007. On 9 May 2007 the Department's activities were changed. The responsibility for prisons, probation and the criminal law and sentencing was transferred to a new Ministry of Justice. The re-focused Home Office is responsible for co-ordinating security and counter terrorism in addition to the existing responsibilities for policing and crime reduction, borders and immigration, and identity and passports.

### Principal activities

The central headquarters of the Home Office set the framework of objectives, financial allocations, strategy and performance management for the key services for which the Home Secretary was responsible, along with providing common support services and driving delivery toward objectives. The Home Office group also comprised two large public services – The National Offender Management Service and the Immigration and Nationality Directorate – and had national responsibility for the Police Service in England and Wales. The Home Office also had responsibility for a number of smaller services, including the Identity and Passport Service, the Criminal Records Bureau and the Forensic Science Service, as well as lead responsibility for a number of Non-Departmental Public Bodies (as listed on pages 6 and 7).

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

### Aims and objectives

The Home Office is the government department responsible for internal affairs in England and Wales. During 2006-07 the Home Office had responsibility for three main areas of activity: policing and security; criminal justice and offender management; and immigration, citizenship and nationality. Our stated purpose was to build a safe, just and tolerant society, and in doing so we had to tackle some of the most difficult and intractable problems in modern society, striking an appropriate balance between maintaining public safety and guarding the individual freedoms that are taken for granted in advanced democracies.

During 2006-07, the Home Office had six Strategic Objectives agreed following the Reform Plan applicable from July 2006. These are set out below:

Objective 1 – Protecting the nation from terrorist attack;

Objective 2 – Cutting crime, especially violent and drug-related crime;

Objective 3 – Enabling people to feel safer in their homes and daily lives, particularly through more visible, responsive and accountable local policing;

Objective 4 – Rebalancing the criminal justice system in favour of the law-abiding majority and the victim;

Objective 5 – Managing offenders to protect the public and reduce re-offending; and

Objective 6 – Securing our borders, preventing abuse of our immigration laws and managing migration to boost the UK.

It should be noted that the Statement of Operating Costs by Departmental Aim and Objectives (and supporting notes) is based on the following objectives that were agreed and applicable at the beginning of 2006-07:

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

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

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

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

**MANAGEMENT**

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

**Ministers**

The following Ministers were responsible for the Department during 2006-07:

Charles Clarke	Home Secretary (until 5 May 2006)
Dr. John Reid	Home Secretary (from 6 May 2006)
Hazel Blears	Minister of State for Policing, Security and Community Safety (until 5 May 2006)
Paul Goggins	Parliamentary Under Secretary for Policing, Security and Community Safety (until 5 May 2006)
Baroness Patricia Scotland	Minister of State for Criminal Justice and Offender Management
Fiona MacTaggart	Parliamentary Under Secretary for Criminal Justice and Offender Management (until 5 May 2006)
Gerry Sutcliffe	Parliamentary Under Secretary for Criminal Justice and Offender Management (from 6 May 2006)
Liam Byrne	Minister of State for Policing, Security and Community Safety (from 6 May 2006 until June 2006)
Vernon Coaker	Parliamentary Under Secretary for Policing, Security and Community Safety (from 6 May 2006)
Liam Byrne	Minister of State for Immigration, Citizenship, and Nationality (from June 2006)
Tony McNulty	Minister of State for Policing, Security and Community Safety (from June 2006)
Tony McNulty	Minister of State for Immigration, Citizenship and Nationality (until June 2006)
Joan Ryan	Parliamentary Under Secretary for Immigration, Citizenship and Nationality (from 6 May 2006)
Andy Burnham	Parliamentary Under Secretary for Immigration, Citizenship and Nationality (until 5 May 2006)

**Officials**

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

Sir David Normington	Permanent Secretary
Ursula Brennan	Chief Executive Office for Criminal Justice Reform (from 8 May 2006)
Martin Bryant	Director of Strategy (until November 2006)
Mark Carroll	Director General Communities Group (Acting) (until November 2006)
Helen Edwards	Chief Executive National Offender Management Service (NOMS)
Mary (Jane) Furniss	Chief Executive (Acting) Office for Criminal Justice Reform (until 4 June 2006)
James Hall	Chief Executive Identity and Passport Services (from October 2006)
Lin Homer	Director General Immigration and Nationality
Helen Kilpatrick	Director General Financial and Commercial
Peter Makeham	Director General Performance and Reform (from July 2006)
John Marsh	Group Director Human Resources
Moira Wallace	Director General Crime Reduction and Community Safety

**Non Executive Directors**

Derrick Anderson	Chief Executive of Lambeth Borough Council
Lord Patrick Carter	Chair of Sport England (until November 2006)
John Heywood	formerly Senior Partner and CEO of Price Waterhouse Coopers Eastern Europe (from January 2007)

**Appointment of senior officials**

The Permanent Head of the Department was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial Head of the Department. Other Members of the Departmental Board were appointed by the Permanent Secretary. These appointments are for an indefinite term under the terms of the Senior Civil Service contract. The rules for termination are set out in Chapter 11 of the Civil Service Management Code.

**Ministers' and Board members' remuneration**

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

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

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

Further details on remuneration are set out in the Remuneration Report beginning on page 47.

**Departmental Report**

The Home Office Departmental Report for 2006-07 was published on 17 May 2007. This covers the Home Office strategic objectives and main activities, performance against Public Service Agreement (PSA) targets in 2006-07 and expenditure plans for 2006-07 to 2008-09. The Report is available from The Stationery Office (CM 7096) or from the Home Office website at [www.homeoffice.gov.uk](http://www.homeoffice.gov.uk).

**Entities consolidated**

The Home Office departmental accounting boundary encompassed the central government department, three Executive Agencies and the National Probation Service. The Executive Agencies were HM Prison Service, the Identity and Passport Service and the Criminal Records Bureau. The accounts of all of these entities form part of the Home Office's consolidated financial statements.

In 2004 the Home Office established the National Offender Management Service (NOMS) to balance the demand for and capacity of correctional services, and to provide a more integrated service. NOMS covers a number of organisations, including prisons and probation, to ensure that a range of services are available to adult offenders and to those on remand throughout England and Wales. During 2006-07 both HM Prison Service and the National Probation Service produced separate annual accounts that were laid before Parliament.

**National Probation Service (NPS)**

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

**HM Prison Service (HMPS)**

HMPS is responsible for providing prison services in England and Wales. The main function is to ensure that offenders and those remanded in custody are supervised in such a way as to protect the public and by giving offenders the opportunity to lead law-abiding, productive and healthy lives.

**Identity and Passport Service (IPS)**

IPS is responsible for providing passport services for British Nationals in the United Kingdom promptly and economically. IPS's primary objective is to provide the best possible service to its customers while maintaining the integrity of the British passport.

**Criminal Records Bureau (CRB)**

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

In addition, the Border and Immigration Agency (BIA) (formerly Immigration and Nationality Directorate) is aiming to become an Executive Agency from 1 April 2008. This entity will continue to focus on securing our borders, preventing abuse of our immigration laws and managing migration to boost the UK. From 1 April 2007 BIA is operating in a shadow form in preparation for becoming a full Executive Agency of the Home Office.

**Forensic Science Service Ltd (FSS)**

FSS is principally responsible for supplying scientific support for criminal investigations and for providing expert evidence to the courts. FSS is a Government owned company having previously been a Government Trading Fund. FSS is treated as an investment on the Home Office Balance Sheet.

**Entities not consolidated**

Public bodies for which the Home Office had lead policy responsibility during 2006-07 within Government, but which are outside of the consolidation boundary for accounting purposes, are set out below. Non-Departmental Public Bodies (NDPBs) are reflected in the Home Office accounts by the inclusion of funds paid to them as grants or expenses and by the reflection of any control issues in the Home Office's Statement on Internal Control. The executive NDPBs publish their own annual reports and accounts which can be obtained from The Stationery Office or the relevant body.

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

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

- Central Police Training and Development Authority (CENTREX) (activities transferred to NPIA)
- Criminal Cases Review Commission
- Criminal Injuries Compensation Authority
- Independent Police Complaints Commission
- National Policing Improvement Agency (NPIA) (from 1 April 2007)
- Office of the Immigration Services Commissioner
- Parole Board for England and Wales
- Police Information Technology Organisation (activities transferred to NPIA)
- Security Industry Authority
- Serious and Organised Crime Agency
- Youth Justice Board for England and Wales

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

- Advisory Board on Naturalisation and Integration
- Advisory Council on the Misuse of Drugs
- Advisory Panel on Country Information
- Animal Procedures Committee
- Correctional Services Accreditation Panel
- IND Complaints Audit Committee
- Police Advisory Board for England and Wales
- Police Negotiating Board



Prison Service Pay Review Body for England and Wales  
Technical Advisory Body  
Sentencing Advisory Panel  
Sentencing Guidelines Council  
Victims Advisory Panel

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

Investigatory Powers Tribunal  
Office of Surveillance Commissioners  
Police Arbitration Tribunal  
Police Discipline Appeals Tribunal

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

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

#### **Other Public Bodies**

Annual Reviewer of the Terrorism Act 2006  
Annual Reviewer of the control order provisions of the Prevention of Terrorism Act 2005 and Part 1 of the Terrorism Act 2006  
Annual Reviewer of the Criminal Justice (Conspiracy and Terrorism) Act 1998  
Asylum Support Adjudicators  
Criminal Justice Consultative Council  
HM Chief Inspector of Prisons  
HM Chief Inspector of Probation  
HM Inspectorate of Constabulary  
IND Complaints Audit Committee  
Independent Assessor for Miscarriage of Justice Compensation  
Independent Race Monitor  
Intelligence Services Commissioner  
Interception of Communications Commissioner  
Ministerial Advisory Group to Retail Crime Reduction Action Team  
Prisons and Probation Ombudsman  
Property Crime Reduction Action Team  
Selection Panels for Independent Members of Police Authorities

## OPERATING AND FINANCIAL REVIEW

The following paragraphs are a summary of the operating and financial performance during the financial year and investment strategy for the future. Further information is available in the Departmental Annual Report published in May 2007.

### Operating Review

#### *Strategy*

The Home Office Reform Plan published in July 2006 set out a detailed programme for transforming the Home Office into a more responsive organisation that puts protecting the public at its heart. In summary, the four key parts of the plan are:

- a focus on front line delivery, with six new objectives to guide its work;
- a leadership strategy, which will strengthen the Board and wider leadership team;
- a new operating model, with a reshaped Department better placed to meet future challenges; and
- a transformation of our systems and processes.

These reform programmes are ambitious but much has already been achieved (greater detail is provided in chapter 2 of the Departmental Annual Report). In summary:

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

#### *Investment for the future*

The bulk of the former Home Office department's capital investment was made in the Prisons (new construction and improvement of existing estate) and the Immigration and Nationality estates (accommodation and detention capacity). Following the machinery of government change the investment strategy will change to invest in maintaining security and counter terrorism to put alongside the existing responsibilities for policing and crime reduction, borders and immigration, and identity and passports. Additionally, significant grants are made to Police Authorities to support the police estate and fund core activities and for three major projects: Airwave digital radio communications project; Case and Custody; and Command Control Communications and Information System for the Metropolitan Police. These grants are classified as resource spend in these accounts included in the Statement of Parliamentary Supply but this is capital grant from the Home Office to the arm's length body pursuant to the achievement of the Department's strategic objectives. These bodies are not included in the accounting boundary and the Police Authorities, rather than the Home Office, will ultimately own the assets.

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

#### *Performance against PSA targets*

In common with other government departments, the Home Office targets for the period 2006-07 to 2008-09 are set out in its Public Service Agreement (PSA). The following table summarises progress and performance during 2006-07 against the five PSA targets, a Value for Money target, a Police Standard, and a NOMS Standard target.

Reported performance against each PSA target is measured on the basis of clearly defined performance criteria and key performance indicators. These are set out in detail within Section 4 of the Departmental Report, which also provides a more detailed assessment of the performance of the Home Office.

TARGET		PROGRESS
<b>PSA1</b>	Reduce crime by 15%, and further in high crime areas, by 2007-08	<b>Overall: slippage</b> Greater reduction in high crime areas: <b>on course</b>
<b>PSA2</b>	Reassure the public, reducing the fear of crime and anti-social behaviour and building confidence in the Criminal Justice System without compromising fairness	<b>Overall: on course</b> Fear of crime: <b>on course</b> Concern about anti-social behaviour being a problem: <b>on course</b> Confidence in local police: <b>ahead</b> Victim and witness satisfaction: <b>on course</b> Public confidence in Criminal Justice System: <b>on course</b> Ethnic minority perceptions on fair treatment: <b>on course</b>
<b>PSA3</b>	Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.25 million by 2007-08	<b>Overall: ahead</b> Offences brought to justice: <b>ahead</b>
<b>PSA4</b>	Reduce the harm caused by illegal drugs, including substantially increasing the number of drug-misusing offenders entering treatment through the Criminal Justice System	<b>Overall: on course</b> Reduce harm caused by illegal drugs: <b>on course</b> Number of drug-misusing offenders entering treatment through the Criminal Justice System: <b>on course</b>
<b>PSA5</b>	Reduce unfounded asylum claims as part of a wider strategy to tackle abuse of the immigration laws and promote controlled legal migration	<b>Overall: ahead</b> Reducing unfounded asylum claims: <b>ahead</b>
<b>Value for Money</b>	Home Office Value for Money target: to achieve gains worth £1.97 billion p.a. (of which £1.24 billion would be cashable) by 2007-08, including by reducing the size of headquarters by 2,700 full time equivalent posts	<b>Overall: achieved</b> Value for money: <b>achieved</b>
<b>Police Standard</b>	Maintain improvements in police performance, as monitored by the Police Performance Assessment Framework (PPAF), in order to deliver the outcomes expressed in the Home Office PSA	<b>Overall: on course</b> Performance of all police forces: <b>on course</b>

TARGET		PROGRESS
<b>NOMS Standard</b>	Protect the public by ensuring there is no deterioration in the levels of re-offending for young offenders and adults. Maintain the current low rate of prisoner escapes, including Category A escapes	<b>Overall: slippage</b> Re-convictions for young offenders: <b>slippage</b> Reconvictions for adults: <b>on course</b> Escapes: <b>ahead</b>

An analysis of the financial performance against the budgeting boundary for the six objectives is provided in the Departmental Annual Report.

Key achievements for 2006-07 are listed below. Greater detail is given in the Departmental Annual Report.

Objective 1 Protecting the nation from terrorist attack

The threat to the UK from terrorism remains high. In July 2006 we published the counter-terrorism strategy (CONTEST). It focuses on the four key areas of activity that are needed to improve our ability to combat the increasing threats of global terrorism.

We work to:

- prevent terrorism by tackling its underlying causes;
- pursue terrorists and those that sponsor them;
- protect the public and UK interests; and
- prepare for the consequences of terrorist action.

Key achievements during 2006-07 included:

- producing guidance for senior managers of further and higher education institutions to assist them in working with students and staff to increase community cohesion and tackle violent extremism on campus;
- strengthening the framework for prosecuting terrorist activity through the Terrorism Act 2006, introducing new offences that include the preparation of terrorist acts and encouragement of terrorism; and
- assisting in the development of Project ARGUS, which explores ways to aid businesses in preventing, handling and recovering from a terrorist attack.

Objective 2 Cutting crime, especially violent and drug-related crime

Our strategies to prevent and reduce crime include record levels of investment to prevent young people from becoming offenders in the first place. We are building communities free from drug and alcohol abuse and are tackling problems of most recent concern to local communities, particularly anti-social behaviour. Addressing the most serious and violent crime remains a top priority.

We look to:

- mitigate the factors that can lead to the social exclusion of, and offending behaviour by, young people while also targeting persistent offenders;
- tackle anti-social behaviour;
- bear down on levels of worry about crime; and
- support our delivery partners in tackling criminal damage.

Key achievements during 2006-07 included:

- investing in targeted prevention programmes for young people who risk being drawn into offending and anti-social behaviour;
- establishing the first wave of 40 'Respect areas';
- supporting the work of Crime and Disorder Reduction Partnerships to reduce alcohol-related crime and domestic violence; and
- launching the Serious and Organised Crime Agency (SOCA) to bring a fresh approach to tackling organised crime.

**Objective 3** Enabling people to feel safer in their homes and daily lives, particularly through more visible, responsive and accountable local policing

The central responsibility of the Police Service remains the protection and reassurance of the public. One of our key responsibilities in building safer communities is ensuring that we can work effectively and strategically with key partners, notably the Association of Chief Police Officers (ACPO) and the Association of Police Authorities (APA), as well as the communities themselves.

We are making significant progress towards the provision of more visible neighbourhood policing in all areas of England and Wales. Measures include increasing the number of Police Community Support Officers (PCSOs) and full Neighbourhood Policing Teams, who are equipped to tackle the concerns which matter most to local people.

Key achievements in 2006-07 included:

- using robust performance assessment frameworks to drive up performance in terms of public confidence and satisfaction;
- developing a new programme of close engagement with forces, police authorities, ACPO, APA and HM Inspectorate of Constabulary to help develop forces' plans for improving protective services; and
- preparing for the launch of the National Policing Improvement Agency on 1 April 2007.

**Objective 4** Rebalancing the criminal justice system in favour of the law-abiding majority and the victim

The Criminal Justice System (CJS) puts the law-abiding people and communities first, ensuring that the needs of the victims are at the heart of what the CJS does, while coming down hard on the offenders. Public confidence in the CJS benefits from work to reduce crime and the fear of crime, by building neighbourhood policing and tackling anti-social behaviour.

We have worked to achieve this rebalancing by:

- improving the experience of victims and witnesses;
- increasing confidence in the CJS;
- bringing more offenders to justice; and
- enforcing the orders of the courts and protecting the public.

During 2006-07 we:

- implemented the Code of Practice for Victims of Crime, including a statutory right for victims to be kept informed about the progress of their case and information about local support services;
- continued to increase the rate of sanction detections, the percentage of crimes for which someone is charged, summonsed or cautioned;
- brought a record 1.4 million offences to justice; and

- continued to reduce the number of warrants outstanding for failure to appear at court.

Responsibility for delivering this objective moved to the Ministry of Justice in May 2007.

Objective 5 Managing offenders to protect the public and reduce re-offending

The National Offender Management Service (NOMS) protects the public and assists the courts, holding securely and managing humanely those committed to custody; it is a key partner in the criminal justice system. Providing increased capacity to implement the orders of the courts remained a priority for the Home Office during 2006-07, with continuing measures to bear down on the likelihood of further offending by those under the supervision of the Probation Service.

Key achievements in 2006-07 included:

- continuing to deliver prison capacity programmes, with useable operational capacity up by nearly 1,200 places;
- reducing the number of apparently self-inflicted deaths among prisoners in England and Wales to 67 in 2006, the lowest figure since 1996;
- establishing Reducing Re-offending Alliances for adults and young offenders, to support the local delivery of plans to reduce re-offending and increase the involvement of local organisations and communities in work to help offenders turn away from crime; and
- reinforcing the Government's policy on sentencing, making clear that custody should be reserved for dangerous and violent offenders, with greater use of community sentences and fines for other offenders and, in doing so, establishing more regular meetings with key sentencers.

Responsibility for delivering this objective moved to the Ministry of Justice in May 2007.

Objective 6 Securing our borders, preventing abuse of our immigration laws and managing migration to boost the UK

Our immigration systems must allow us to manage properly who comes to the UK, welcoming those here legitimately, ensuring that they leave when no longer entitled to be here and contributing to a robust economy through the inflow of skills and investment. 2006-07 saw the start of an ambitious programme of change, focused around the delivery of four strategic objectives:

- strengthening our borders;
- fast tracking asylum decisions;
- ensuring and enforcing compliance with our immigration laws; and
- boosting the UK's economy.

During 2006-07 we:

- introduced the UK Borders Bill, which includes new and enhanced powers for front-line immigration officers;
- saw more than 50,000 inadequately documented passengers denied boarding by Airline Liaison Officers (ALOs) overseas, preventing those passengers from travelling to the UK;
- continued to bear down on the number of unfounded asylum claims and introduced a new end-to-end process for managing claims towards a speedy conclusion;
- ensured that all foreign national prisoners (FNPs) were considered for deportation prior to release and increased the number of those who were deported upon completion of their custodial sentence; and
- offered an improved service to migrants, attracting the right skills to the UK and supporting both institutions and employers in achieving their goals.

## Financial Review

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

1) Resource Estimate (Estimates Boundary)

This is a statement presented by HM Treasury to the House of Commons in which the Home Office seeks approval for its estimated spending for the coming financial year. The Estimate summarises both the resources and the cash required for the year and the Home Office actual outturns against these Estimates are reported in the Statement of Parliamentary Supply of the Resource Accounts which can be found on page 55. This is a statement which only applies to Central Government and has no equivalent statement in UK GAAP based accounts.

2) Resource Accounts (Accounting Boundary)

These are prepared annually and present the financial results of the Home Office. These accounts are prepared on the basis of UK GAAP (Generally Accepted Accounting Practice) and the Government Financial Reporting Manual (FRm). The Operating Cost Statement (found on page 56), Statement of Recognised Gains and Losses (found on page 57), the Balance Sheet (found on page 58) and the Cash Flow Statement (found on page 59) have been adapted for central government from their commercial equivalents. The accounting boundary includes the financial results for the Home Office plus its Agencies. The resource accounts only include the Grant in Aid paid to the NDPBs sponsored by the Home Office. The financial performance and assets and liabilities of the NDPBs are not consolidated within these accounts.

3) Resource Budgeting (Budgeting Boundary)

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

Financial reporting in the Departmental Report and other documents published by the Home Office reported on the resource consumption of those bodies which are included within the budgeting boundaries (i.e. includes the full resource and capital consumption of the Home Office sponsored NDPBs). This is to ensure that the costs of those bodies involved in delivering the performance reported in PSA targets are matched against the delivery reported against the appropriate PSA target. In this respect they will differ from those amounts reported in the Consolidated Statement of Operating Costs by Departmental Aim and Objectives, which can be found on page 60.

## Funding

2006-07 was the second year following the Spending Review 2004, which set out funding levels for all government departments for the three years 2005-06 to 2007-08.

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

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

**Outturn**

The Summary of Resources Outturn, which is the main parliamentary control schedule, reports the outturn against Estimate (the Estimates Boundary) for each RfR. Additional detailed actual spending during 2006-07 against Estimate sub-heads is reported in the Analysis of Net Resource Outturn by Section. Estimates for each sub-heading are finalised in the Spring Supplementary Estimate with work to formulate these numbers taking place in December. It is possible that spending decisions taken in the last quarter of the financial year can result in monies being transferred from one delegated budget to another within individual Strategic Objectives. These changes cannot, however, be reflected in individual Estimate sub-heads and are dealt with after the year end by agreement with HM Treasury to vire monies between sub-heads.

**Reconciliation of resource expenditure between Estimates, Accounts and Budgets**

	<u>2006-07</u>	<u>2005-06</u>
	Outturn	Outturn
	£000	£000
Net Resource Outturn (Estimates)	13,887,890	13,411,010
Prior year adjustment	105,319	(93,289)
<u>Adjustments to remove:</u>		
Provision voted for earlier years	-	-
Adjustments to additionally include:		
Non-voted expenditure in the Operating Cost Statement (OCS)	-	-
Consolidated Fund Extra Receipts in the OCS	(199,139)	(281,833)
Remove grants to National Probation Service (local area boards)	(848,547)	(778,468)
Resource DEL of National Probation Service (local area boards)	809,159	770,236
Machinery of Government Transfer	-	(115,885)
Net Operating Cost (Accounts)	13,754,682	12,911,771
<u>Adjustments to remove:</u>		
Capital grants to local authorities	(215,669)	(303,840)
Capital grants financed from the Capital Modernisation Fund	(10,084)	(5,120)
European Union income related to capital grants	-	-
Voted expenditure outside the budget:		
Loan Charges (Note 2 AJ)	(10,076)	
Fine Refund to Carriers	(18)	
	<u>(10,094)</u>	<u>(288)</u>
<u>Adjustments to additionally include:</u>		
Other Consolidated Fund Extra Receipts	63,150	38,737
Resource consumption of Non-Departmental Public Bodies	(196,468)	(152,307)
Unallocated resource provision	-	-
Other adjustments	-	-
Resource Budget Outturn (Budget)	<u>13,385,517</u>	<u>12,488,953</u>
of which:		
Departmental Expenditure Limits (DEL)	12,989,448	12,706,057
Prior year adjustments in 06/07	105,319	(105,319)
Machinery of government transfers	-	(115,885)
Annually Managed Expenditure (AME)	290,750	4,100
	<u>13,385,517</u>	<u>12,488,953</u>

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



Reporting performance against the Estimates, the Home Office underspent by £313m in 2006-07, as detailed in the Schedule of Parliamentary Supply. This reflects the net impact of the variances identified in Note 2 to the accounts.

The explanations for the variances have been summarised as per the Department's organisational structure rather than listed as per sub heads per Note 2. For the reporting year 2006-07 the Home Office had 5 Directorates:

- Crime Reduction and Community Safety Group (CRCSG);
- Office of Criminal Justice Reform (OCJR);
- National Offender Management Services (NOMS);
- Immigration and Nationality Directorate (IND); and
- Central Services.

#### Explanation of significant variances against Estimates

In accordance with FReM, explanations have been provided for variances from the Estimate of 10 per cent or £500k (whichever is the greater). Where it is thought appropriate additional disclosure has been provided:

#### **Crime Reduction and Community Safety Group (CRCSG)**

##### **Core Department and Agencies:**

CRCSG underwent a major re-structuring of its operations during 2006-07 with the result that the subheads set within Estimates at the start of the year no longer bear a close relationship to the way the Group's activities are organised. Consequently there are large variances on subheads A, B, D, E, Q, R and S. The total net variance on these subheads is an underspend of £133.6m. The only difference between the budgeting and Estimates bases for these business areas is the inclusion of capital grants that are defined as resource in Estimates and capital in budgets. The resource budget outturn for these areas shows an underspend of only £23m, of which £14m relates to the Terrorism and Allied Matters (TAM) grant payable to the Association of Chief Police Officers (ACPO). The remaining variance relates to capital grants as detailed below. The 2007-08 Main Estimate has been re-structured to reflect CRCSG's new business organisation.

Grouping directly related subheads, distinguished according to whether funding was expected to be spent within central or local government, the main factors at work are:

£000	Net outturn	Net Estimate	Under/(over)	% Variance
A – Police	599,656	35,683	(563,973)	(1,581%)
Q – Police grants	4,548,881	5,545,704	996,823	18%
	<u>5,148,537</u>	<u>5,581,387</u>	<u>432,850</u>	<u>8%</u>

The underspend on policing is due to two main factors: a) capital grants to the police were not drawn down in full due to delays in completion of underlying projects, including the cancellation of force restructuring plans and the decision not to proceed this year with the second wave of the Single Non Emergency Number; and b) some funding was re-focused from general police activities to specific activities reported against other subheads, in particular, security and counter-terrorism on subheads D and S.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
B – Crime Reduction	144,820	15,607	(129,213)	(828%)
R – Crime Reduction grants	35,183	207,733	172,550	83%
	<u>180,003</u>	<u>223,340</u>	<u>43,337</u>	<u>19%</u>

The apparent underspend arises because the Estimates budget includes drugs programmes, the outturn for which is recorded against subhead E.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
D – Organised and International Crime	567,012	314,218	(252,794)	(80%)
S – Organised and International Crime grants	96,427	214,567	118,140	55%
	<u>663,439</u>	<u>528,785</u>	<u>(134,654)</u>	<u>(25%)</u>

The overspend reflects the fact that the budget for some of the counter-terrorism and security expenditure within the reported outturn is held within police subheads A and Q. The diversion of general police funding for security and counter-terrorism programmes reflects government priorities post 7 July 2005. In addition, capital grants to ACPO (TAM) were underspent by £34m and resource grants were underspent by £12m.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
E – Drugs	221,993	14,089	(207,904)	(1476%)

The budget for drugs related activities is set against crime reduction subheads. There was no significant under or overspend on drugs programmes. Some expenditure recorded here relates to associated violent crime and anti-social behaviour programmes.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
C – Criminal Records Bureau	(13,618)	(3,180)	10,438	(328%)

CRB made a greater than expected surplus due to higher than anticipated business volumes generating excess fee income of £5m. The cost base was also lower than planned due to savings on training and travel and subsistence (£1.5m) as a result of staff vacancies and because development expenditure on projects designed to integrate CRB with other parts of the criminal justice system were slipped into 2007-08 (£4m).

£000	Net outturn	Net Estimate	Under/(over)	% Variance
U – Police Superannuation	–	270	270	100%
AK – Police Superannuation	290,750	290,000	(750)	0%
	<u>290,750</u>	<u>290,270</u>	<u>(480)</u>	<u>0%</u>

The two subheads distinguish expenditure between that incurred within the central government sector for NDPBs employing staff in the police pension scheme and the local government sector for police force pensions. Expenditure falls on the Home Office to the extent that payments exceed officer and employer contributions for each force whereas 90% of surpluses are returned to the Home Office. Overall no Home Office funding was required for NDPB police pensions.

#### **NDPBs:**

£000	Net outturn	Net Estimate	Under/(over)	% Variance
V – Police Information Technology Organisation	348,548	389,237	40,689	10%

The underspend relates to slippage on capital projects, in particular Airwave London Underground (£20m), Ground Based National Resilience project (£23m) and the Cluster Hot Standby project (£7m). These underspends were offset by pressures on the resource costs of other projects such as Impact (£2m) and Livescan (£1.7m).

£000	Net outturn	Net Estimate	Under/(over)	% Variance
X – Independent Police Complaints Commission	30,600	28,530	(2,070)	(7%)

On a budgetary basis, IPCC came in almost at its resource and capital budgets. The overspend on a Grant-in-Aid basis is a cash flow management issue whereby cash had to be drawn down in 2006-07 to meet payments due at the start of 2007-08. Funding was advanced on the basis that there were offsetting underspends against Grant-in-Aid allocations to other NDPBs in CRCSG.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
Y – Serious Organised Crime Agency	423,354	397,658	(25,696)	(6%)

SOCA came in at resource budget of £385m and its capital budget of £42m. The overspend on a Grant-in-Aid basis reflects the drawing down of funding at the end of 2006-07 to meet payments due immediately at the start of 2007-08. Funding was advanced on the basis that there were offsetting underspends against Grant-in-Aid allocations to other NDPBs in CRCSG.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
Z – Security Industry Authority	(2,985)	1	2,986	n/a

To assist with liquidity, SIA receives Grant-in-Aid up front which is subsequently refunded from fee income. On a cash basis, the refunds falling in 2006/07 exceeded the amount of Grant-in-Aid paid out of £4m. The variance against Estimates is therefore a timing issue. As far as actual business activities are concerned, lower than planned business volumes meant that SIA made a deficit of £2m on its resource budget whereas delays in the procurement of IT equipment resulted in an underspend of £1.9m on its capital budget.

#### **Office of Criminal Justice Reform (OCJR)**

##### **Core Department:**

£000	Net outturn	Net Estimate	Under/(over)	% Variance
F – Criminal Justice	111,162	116,664	5,502	5%
AM – Criminal Justice Grants	508	4,955	4,447	90%
	111,670	121,619	9,949	8%

The underspend arises mainly from slippage in the implementation of programmes within the Criminal Justice IT programme such as the Exchange Portal project.

#### **National Offender Management Service (NOMS)**

##### **Core Department:**

£000	Net outturn	Net Estimate	Under/(over)	% Variance
I – Corrections HQ (NOMS)	837,203	901,310	64,107	7%

The underspend is mainly due to a Reserve Claim of £50m approved in the Spring Supplementary Estimate which the Department sought to avoid the risk of overspending in the face of exceptional pressures from emergency measures required to deal with prison overcrowding. The pressures were ultimately met through a Department-wide savings programme which meant that the funding, which would have reduced the amount of End Year Flexibility available in 2007-08, was not used. Savings were also made on areas of discretionary spend such as prison maintenance and from the decision not to proceed with Custody Plus (£9m).

£000	Net outturn	Net Estimate	Under/(over)	% Variance
L – Probation HQ	49,593	51,406	1,813	4%

The underspend was engineered, mainly by reducing optional intervention programmes on alcohol and drugs, in order to generate savings to offset budgetary pressures elsewhere in NOMS from prison overcrowding. This enabled the Department to avoid drawing upon the Reserve funding facility agreed by HM Treasury.

**NDPBs:**

£000	Net outturn	Net Estimate	Under/(over)	% Variance
AC – Youth Justice Board	409,513	454,663	45,150	10%

On a budgetary basis, the YJB had an underspend of £4m on its resource budget arising from an agreement reached with contractors to cap the costs of prison escorting and an underspend of £12m on capital projects, mainly because of delays in receipt of planning permission to progress the building of a new Youth Offender Institution at Wetherby and slippage on the Wiring Up Youth Justice project. Above and beyond these factors, the underspend against cash based Grant-in-Aid reflects timing differences when the first or last Grant-in-Aid instalment of the year falls with a different financial year than originally planned.

**Immigration and Nationality Directorate  
Core Department:**

£000	Net outturn	Net Estimate	Under/(over)	% Variance
M – Immigration and Nationality	1,455,546	1,306,621	(148,925)	(11%)
T – Immigration and Nationality grants	–	167,259	167,259	100%
	1,455,546	1,473,880	18,334	1%

Overall, the Immigration and Nationality Directorate returned an outturn close to budget. For the purposes of National Accounts produced by the Office of National Statistics, the Estimate allocation for grants was identified under a separate subhead T from the Spring Supplementary Estimate. Related outturn expenditure is recorded against subhead M. The overspend arises from the need to recognise an impairment of £23m for damage sustained following a disturbance at the Harmondsworth detention centre offset by small operational underspends across the business.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
P – European Refugee Fund	(1,015)	1	1,016	n/a

Estimates are set on the basis that expenditure will be offset by matching receipts from the European Union in year. Due to timing differences between the recognition of expenditure on an accruals basis and income on submission of grant claims, the two amounts do not necessarily match in a given financial year. In 2006-07, income (£5.9m) exceeded expenditure (£4.9m) whereas in 2005-06, expenditure exceeded income.

£000	Net outturn	Net Estimate	Under/(over)	% Variance
AH – Office of the Immigration Service Commissioner	4,313	3,689	(624)	(17%)

In internal budgets, OISC was allocated Grant-in-Aid of £4.39m against which a small underspend was returned. This higher allocation was containable within the Department's overall Estimates limits and reflected a more up-to-date assessment of funding requirements for this NDPB.

**Central Services:**

£000	Net outturn	Net Estimate	Under/(over)	% Variance
O – Central Services	263,461	262,337	(1,124)	0%

The Central Services outturn includes the £20m provision made for the ongoing HM Revenue and Customs audit of PAYE and National Insurance. Without this, there is an underspend of £18.9m which reflects small savings across a wide range of central support functions and delivery programmes. In particular, income from Science and Research Group activities was £2m higher than expected, the level of grants awarded in year under the Respect programme was lower than planned (£5m), the number of campaigns run by the Communications Directorate was curtailed (saving £2.2m) and there were cost of capital credits of £3.1m arising from tax creditors and early departure provisions in the Human Resources Group that were not anticipated in plans. In addition, some immaterial adjustments required to opening asset and liability balances have been brought to account here.

**Other:**

£000	Net outturn	Net Estimate	Under/(over)	% Variance
AJ – Loan Charges	10,076	12,760	2,684	21%

Loan charges relate to outstanding loans taken out by Police Authorities and Probation Boards prior to 1990 when capital schemes were financed entirely by local authorities loans on which the Home Office paid 20% of the principal and interest. The underspend reflects fluctuations in interest rates and the rate at which principal is paid off.

**Cash requirement**

The overall cash requirement for the year was £264m lower than expected. This is broadly in line with the underspend reported above.

**Contingent liabilities**

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

**Machinery of government changes**

As well as the machinery of government changes referred to in the opening section of the Annual Report, there have been other changes which have been effected in the accounts. On 6 May 2006 the Active Communities Directorate within the Home Office transferred to the Cabinet Office to form a new Office of the Third Sector. Other parts of the Home Office's Communities Group transferred to the Department for Communities and Local Government.

With effect from 1 April 2006 the activities of the National Crime Squad (NCS) and the National Criminal Intelligence Service (NCIS) were transferred to the Serious Organised Crime Agency (SOCA), together with elements of HM Revenue and Customs (HMRC) and the Immigration Service.

On 1 April 2006 UK Passport Service (UKPS) ceased to exist and a new Agency, the Identity and Passport Service (IPS), was created. All UKPS assets and liabilities were transferred to the new Agency, which incorporated the functions of UKPS and will also deliver the National Identity Scheme (NIS).

**Going concern**

The Balance Sheet as 31 March 2007 shows taxpayers' equity of £5,677m. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the Consolidated Fund. Such drawings will be in the form of Supply, approved annually by Parliament, to meet the Department's net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the service of the specific year or retained in excess of that need. All unspent monies including those derived from the Department's income, are surrendered to the Fund.

In common with other government departments, the future financing of the Department's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. It has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

**Events since the year end**

On 29 March 2007 the Home Secretary announced a machinery of government change which became effective from 9 May 2007. The Home Office remains responsible for crime and crime reduction, policing, security and counter terrorism, borders and immigration, and passports and identity. The Department will be working to a revised set of objectives (further details are available in the Departmental Annual Report).

The Ministry of Justice retains responsibilities that previously fell to the Department for Constitutional Affairs and has taken on responsibility from the Home Office for criminal law and sentencing, for reducing re-offending and for prisons and probation. The Office for Criminal Justice Reform now operates from the Ministry of Justice, but retains its trilateral responsibilities and continues to report to the Home Secretary, the Secretary of State for Justice and the Attorney General.

On 1 April 2007 the Immigration and Nationality Directorate was established as a shadow Agency and was renamed the Border and Immigration Agency.

On 4 June 2007 NOMS announced the process for Boards to apply for trust status from April 2008. Six Boards have been accepted for Phase 1 Trusts.

On 28 June 2007, Rt Hon Jacqui Smith MP replaced Rt Hon John Reid MP as Home Secretary. Admiral Lord Alan West GCB DSC replaced Baroness Scotland as Parliamentary Under Secretary of State in the House of Lords. Meg Hillier replaced Joan Ryan as Parliamentary Under Secretary of State. Gerry Sutcliffe MP left the Home Office as part of the machinery of government changes.

On 28 June 2007 the Respect Task Force transferred to the Department for Children, Schools and Families.

On 25 July 2007 the Prime Minister announced the intention to integrate the work of the Border and Immigration Agency, UK Visas and HMRC to create a unified border force. A review team has been set up to report in October 2007 on steps to achieve that integration.

There continues to be pressure on the detention estate due to the number of Foreign National Prisoners being held. There was an incident at the Campsfield House Immigration Removal Centre which led to the escape of 26 detainees on 4 August 2007. Mr Robert Whalley CB was asked to investigate earlier incidents at Harmondsworth and Campsfield centres. The recommendations of his inquiry are being implemented in order to reduce the risk of future incidents.

The Identity and Passport Service (IPS) has signed major new contracts with Teleperformance Limited (£27m), Special Mail Services (£47m) and has also extended its existing contract with Siemens IT Solutions and Services (£33m). IPS has also published an advertisement for the procurement of a framework arrangement to provide capabilities to support the National Identity Scheme.

**STATEMENT ON CORPORATE GOVERNANCE**

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

The Code mandates the following areas of reporting:

- how the departmental Board operates, including its delegations and committees;
- which Board members the Board considers to be independent;
- the work of the Board's Audit Committee; and
- how the Department manages its relationships with arm's length bodies with which it operates, including NDPBs, public corporations and wholly or largely owned companies.

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

Each area requiring mandatory reporting is discussed below.

The Home Office Board was responsible for the corporate leadership of the Department and was the key group through which Ministers were supported in the leadership and corporate governance of the Home Office. Chaired by Sir David Normington, the Permanent Secretary, it brings together the heads of business areas and corporate services. External scrutiny and support to the Board was provided by two independent non-executive directors.

The role of the Board is to provide the corporate leadership of the Home Office (including its Executive Agencies), supporting Ministers in:

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

The Home Office Audit Committee's role is to advise the Accounting Officer on internal control, risk management, audit and financial accounts issues. It met five times in 2006-07 and was chaired by Lord Patrick Carter until November 2006 and subsequently by John Heywood who is also a non-executive Board member. It had an additional 5 non-executive Audit Committee members.

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

Specifically, during 2006-07, we consider the Home Office entirely complied with four of the six underlying principles of the Code, together with their supporting provisions. All the remaining principles and supporting provisions were complied with, with the exception of the following: the Terms of Reference for the Audit Committee are not publicly available (provision 5.3 of the Code); and the Board is yet to formally state the basis by which Board members should notify and consider potential conflicts of interest (provision 2.12 of the Code).

**Risk management**

Risks are assessed, managed and reported at strategic, programme and project level. Over-arching threats to delivery by the Home Office are tracked and managed on a corporate risk register. The Home Office Board formally reviews this risk register on a quarterly basis as part of an integrated performance management report. In addition, Operating Reviews, chaired by the Permanent Secretary, monitor the performance and risks to the Home Office on a business by business basis. Operating Reviews are held monthly for the major businesses and quarterly for corporate functions.

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

In July 2006, as part of the Home Office reform programme, the Board initiated a project to improve escalation of risk from the front line and the management of risks to the public.

Further information is provided in the Statement on Internal Control.

**PUBLIC INTEREST AND OTHER****Employment of disabled persons policy**

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

**Equal opportunities**

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

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

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

**Provision of information to, and consultation with, employees**

The Home Office has in place a consultative framework, known as the Whitley system, for engaging workforce representatives. There are four recognised Trade Unions and facility time is provided to allow employee representatives to take part in industrial relations duties. Alongside this, the Department has specific bodies for consulting minority groups - these include "The Network" covering members of staff from black and minority ethnic communities, "HODS" covering staff with disabilities and "Spectrum" covering homosexual and lesbian members of staff. The Department provides resources for these and other representative bodies.

In addition, the Home Office has a variety of communication channels in place to deliver information on organisation and business developments to staff, and to provide an opportunity for feedback. The channels used range from timely electronic communications to face-to-face briefings.



The Home Office gained Investors in People (IiP) accreditation in September 2000 and retained accreditation in January 2004 following the three yearly review of performance against the Standard. The Home Office is due to be re-assessed against the IiP Standard in January 2008. The Department has already undertaken the following steps in preparation:

- an IiP Survey in November-December 2006;
- a series of Internal Reviews to probe further under the Survey results; and
- a "Light Touch" assessment of the Home Office conducted by an IiP UK appointed assessor.

Alongside this we are planning more internal reviews; an IiP Action Plan; a new system of recognising the work of staff; and improved appraisal/promotion systems.

### **Environmental policy**

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

In January 2007 the newly established Home Office Estates Steering Board endorsed a sustainable development strategy for the Home Office Estate within the context of new sustainable operational targets for the government estate and the move to shared services across the Department. These targets were agreed by Ministers in June 2006 to improve performance in: key areas of climate change and energy; sustainable consumption and production; and natural resource protection. Performance against the targets will be assessed by a series of sustainability key performance indicators which will be monitored by the Department's performance board on a quarterly basis.

Since the targets were published there have been a number of significant achievements. The uptake of renewable electricity across the office estate has risen to over 60%, well in excess of the current target of 10%. All duty travel flights during 2006-07 will be carbon offset to help reduce the carbon footprint of the Department. The biodiversity of the HMPS estate was highly commended by a number of external stakeholders including Jonathon Porrit of the Sustainable Development Commission. Recently 2 Marsham Street, the Home Office HQ building, received an excellent score for the Building Research Establishment's post-occupational BREEAM environmental assessment, one of the highest scores obtained for an occupied building. However, as a recent Sustainable Development in Government report reveals, there still remains room for improvement across the rest of the Home Office estate.

### **Pension scheme liabilities**

Employees in the parent department are primarily members of the Principal Civil Service Pension Scheme (PCSPS). This scheme is an unfunded multi-employer defined benefit scheme with benefits paid by the Cabinet Office as they fall due, secured against future tax yield. The Cabinet Office produces a separate annual PCSPS scheme statement. The Home Office pays contributions to meet the actuarially calculated cost of pensions and is responsible for certain costs associated with early retirements. These costs are charged to the Operating Cost Statement. The Home Office (in common with other departments) is unable to identify its share of the underlying PCSPS assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

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

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

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

Some members of the National Probation Service belong to the Local Government Pension Scheme (LGPS), a statutory funded scheme. Independent actuarial valuations were carried out for the 42 Probation Boards at 31 March 2004 by various actuaries and this determined the employers' contribution rates from 2003-04 to 2005-06. The valuation as applied to the Probation Board at 31 March 2007 showed a shortfall of assets compared with the present value of liabilities of £535m (£257m in 2005-06).

#### **Payment of suppliers**

The Home Office has signed up to the CBI's prompt payment code and BS 7890, the British Standard for prompt payment. The contractual terms and conditions of payment require that a supplier's invoice be paid within 30 days of acceptance of relevant goods and services, or the receipt of a valid invoice if that is later. The Home Office and its Agencies prompt payment record for the year was 85% (86% in 2005-06).

#### **External auditor**

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

The NAO audit fees for 2006-07 were £1,220k (£1,207k in 2005-06) of which a cash payment of £25k (£25k in 2005-06) was made, the residual was a notional payment.

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

David Normington  
Accounting Officer  
27 September 2007

## Statement of Accounting Officer's Responsibilities

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

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

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

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

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

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

David Normington  
Accounting Officer  
27 September 2007

## Statement on Internal Control

### Scope of responsibility and accountability arrangements

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Home Office's policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

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

As Accounting Officer I work with Ministers and senior managers through the Home Office Board and other meetings and correspondence to achieve the Department's objectives which are set out in the Annual Report<sup>1</sup> (page 3). I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent the Home Office's objectives being achieved.

### The purpose of the system on 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 Home Office for the year ended 31 March 2007 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

I am committed to the ongoing development, monitoring and review of these systems to ensure that they continue to be appropriate, effective and integral to all Home Office business processes. As a result, the system of internal control has continued to change and develop during the year.

### Capacity to handle risk

#### *Context*

The Home Office is a complex and diverse organisation with multiple challenges. Its aims during 2006-07 covered crime reduction, managing offenders, reforming the criminal justice system, countering terrorism, tackling drug abuse and managing asylum and migration procedures, together with supporting objectives. The Home Office achieved its aims by direct service provision in some areas, augmented in others by delivery through a range of other entities including NDPBs, police authorities and probation boards.

#### *Leadership*

The Home Office Board lead the system of internal control by carrying out their role in the corporate process and role modelling the behaviours that they would like Home Office staff to adopt. The Home Office Board also have oversight of the whole system and its continual improvement drawing on the advice of experts where needed. The Reform Action Plan published in July 2006 (see below) set out the measures the Board were taking to improve risk management, systems and processes.

#### *How staff are trained or equipped to manage risk*

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

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<sup>1</sup> Home Office Departmental Report May 2007 Cm 7096.

Led by their respective Accounting Officers, the various Home Office Agencies have developed their own risk management processes and strategies. A risk management forum, which includes senior management representatives from each Agency and the Home Office, has been established to ensure that these processes are co-ordinated. As part of the Reform Programme I undertook to improve the understanding of the risks we face at each level of our business so that we can take more timely and innovative action to mitigate them. This work builds on the HM Treasury-led cross Whitehall programme to improve risk management started in 2002. We committed ourselves to embed a culture of intensive risk management which supports informed risk taking by managers, improves the risk management of major investment programmes and encourages the front line to identify and escalate risk more regularly. The process changes are now being embedded although the behavioural changes needed are expected to take longer.

### **The risk and control framework**

The Home Office's system of internal control consists of a framework of corporate governance and management processes, key elements of which are described below.

#### *Home Office Board*

The Home Office Board, comprising the senior members of the Department and two external independent members, meets monthly to consider the plans and strategic direction of the Department. The Board received monthly finance reports and quarterly reports on performance, finance, key projects and risk.

#### *Performance Management*

Operating Reviews, which I chair, were introduced this year to review each month the performance of each main Home Office business and Agency. These reviews focus on the outcomes being achieved and the underpinning activity, including the management of staff, use of resources, commercial relationships, compliance with basic processes, relations with stakeholders and progress of key projects and programmes.

The findings from the Operating Reviews are assimilated into a quarterly performance report for the Home Office Board. This report includes an analysis of cross-cutting themes and issues that are relevant to the Home Office as a whole.

Information is presented in a balanced scorecard format covering outcomes, outputs, enablers and risks. Using the balanced scorecard the Board is able to assess the performance of the organisation in the round and to see clearly the key issues they need to spend their time addressing.

The Home Office Board monitors progress against achieving its strategic objectives primarily through a small number of performance indicators, which in the main are those used for the Department's PSA targets. The data systems used to measure PSA targets are defined in published Technical Notes and have been subject to scrutiny by HM Treasury and the National Audit Office (NAO). We have undertaken a consultation with stakeholders on PSA targets for the Comprehensive Spending Review 2007 and expect to publish the outcome in the Autumn of 2007. Performance against the PSA and other key targets is reported to Parliament in the Annual and Autumn Reports.

In addition to the above corporate level system, each Home Office business has a performance management system that is integrated with their delivery chain's performance framework and adapted to suit the design of that delivery chain. These systems follow the principles of good performance management – setting clear measurable objectives, regular progress tracking, timely management action and external oversight.

#### *Risk Management Culture*

It is the Board's intent to demonstrate an ongoing and determined commitment to improving risk management throughout our organisation. This is essential to our success in protecting the public, achieving our objectives and building public confidence. Our approach is for Board members to lead this by setting the standard expected, role modelling the behaviours we would like our staff to adopt, ensuring staff have the training they need and that their roles and responsibilities are clear.

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

#### *Risk Management Processes*

Risks are assessed, managed and reported at strategic, programme/project and Home Office business unit level. Our risk management process is designed to be aligned with the performance management process described above. Each Home Office business and Agency reviews the risks in its area of responsibility and records the top risks they face on a risk register. These risks are then considered at the Operating Review which I chair. Director Generals and Agency Chief Executives discuss their top risks with their respective Ministers.

The most serious or cross cutting threats to public protection, the delivery of our strategic objectives, finance and/or reputation are escalated from the businesses and Agencies to the Board. The Board consider the actions proposed to reduce these risks and track progress using a corporate risk register. As part of the process, a group of Directors from across the businesses and Agencies consider the corporate risk register and advise the Board on what might be missing or need escalating. The Home Office Board formally reviews this risk register quarterly with the balanced scorecard. I then discuss the top risks with the Home Secretary.

#### *Risk Appetite*

The Home Office Board considers risk appetite when it reviews the corporate risk register and specifically whether it is content with the extent to which risk levels are reduced by the planned actions. Where it is not content the Home Office Board commissions further actions.

The Board have reflected on the overall level of risk exposure faced by the Home Office and decided that they wish to reduce this in future years. They have commissioned from each business and Agency an assessment of when this will happen.

#### *Financial Controls*

The corporate finance function of the Home Office sets accounting policies and finance processes for the non-agency core of the Home Office. Where appropriate, corporate finance works with other corporate services functions, such as Commercial Directorate (for procure to pay), Human Resources (for pay), and Programme and Project Management Support Unit on major projects. Corporate finance provides certain transactional services to the Home Office, such as invoice payment.

Corporate finance supports the Home Office Board in the allocation of resources to business areas. It is business areas who manage their expenditure within the terms of their delegations.

#### *Home Office Investment Board*

The Home Office Group Investment Board (GIB: a sub-board of the main Home Office Board) approves the investment decisions of major programmes and projects (those that are high value, high risk, mission critical or novel and contentious). It meets monthly, more often if pressure of business requires it.

GIB considers the business cases of the programmes and projects at key points: after their first Gateway™ Review, before the start of procurement and before award of contract. Programmes and projects are also required to report back on their return on investment after their benefits realisation Gateway™ Review.

Projects below the GIB threshold are approved in most business areas, Agencies or NDPBs by local investment boards working to the same principles as GIB. Crime Reduction and Community Safety Group's local investment board will shortly be put in place.

## Corporate Risks

The corporate risks change in accordance with the process set out above. As at 24 July 2007 the corporate level risks were:

- terrorist attack;
- a disturbance in the Border and Immigration Agency's detention estate;
- failure to join up a key process or system;
- an increase in public sensitivity to migration creates a demand on the Border and Immigration Agency that they are unable to meet; and
- managing within the SR07 settlement, given additional demands on counter-terrorism.

## Application of the risk and control framework in Home Office business areas

### *Crime Reduction and Community Safety Group*

The Crime Reduction and Community Safety Group (CRCSG) is responsible for policy on organised crime and counter-intelligence, police standards, crime reduction and drugs.

During the year the Group operated, and continues to operate, within an environment of significant operational and organisational change. This environment had an impact on operational control but did not materially reduce the level of control required to ensure good governance. Management assurance activities undertaken during 2006-07 indicated that CRCSG generally had good processes but needed to improve its financial management and reporting systems to ensure that reorganisations could be reflected quickly in the Adelphi Finance IT system, as now enabled by recent system changes.

The 2005-06 statement had highlighted the need to improve compliance with guidance in undertaking procurement activities and the making of grants. The grants process continues to be an area of focus and improvements have been made to monitoring and control arrangements in advance of revised guidance from the centre. Guidance is followed prior to undertaking any procurement activities.

During the year it came to light that there was a backlog of files containing information on the overseas convictions of UK citizens. An urgent programme of work was undertaken to clear the backlog. The Permanent Secretary instigated and published<sup>2</sup> the results of an inquiry fully investigating what went wrong. The inquiry recommendations had a strong read across to the Home Office Reform programme. Actions have been taken to: review potential risks to delivery and the reputation of the Home Office, for which the Directorate is responsible; improve systems around notifications of foreign convictions abroad; and communicate the need to identify, own and escalate risks as appropriate.

### *National Offender Management Service*

The National Offender Management Service (NOMS) continued to operate in an environment of significant operational pressure and organisational change.

Robust accounting and risk management procedures exist both in the main delivery organisations (HM Prison Service, National Probation Service and Youth Justice Board) and at the centre. These have been reviewed by Internal Audit and improvement has been recognised. Despite this the size and complexity of NOMS mean that there remain issues with internal control and risk.

During the year the NOMS headquarters was restructured with the creation of two new Director posts (Director of Performance and Improvement and Director of Commissioning and Partnerships). Actions were taken to clarify accountabilities within the new NOMS structure through the Accountabilities Blueprint and the Prison Service Agency Framework Agreement. At the end of the financial year it was announced that the whole of NOMS was to transfer to the newly created Ministry of Justice and this transfer took place on 9 May 2007.

Operational changes continue to take place, with the continued implementation of the Offender Management

<sup>2</sup> <http://www.homeoffice.gov.uk/documents/inquiry-criminal-convictions?version=1>.

model and introduction of C-NOMIS at the first early adopter site, HM Prison Albany.

In 2006-07 NOMS had a particularly demanding and eventful year. The following were the main issues which were out of the ordinary.

- **Foreign National Prisoners.** In the spring of 2006, it became evident that there were substantial difficulties in ensuring that foreign national prisoners were considered for deportation at the end of their sentence. The Home Office response was led by the Immigration and Nationality Directorate (now Border and Immigration Agency) but NOMS played a key role both in following up on offenders who had been incorrectly released and in putting in place improved arrangements for the future.
- **Prison Capacity.** Prison capacity has been increased substantially over the last ten years. Nonetheless, the number of prison places has become inadequate to meet demands. This pressure has been further exacerbated by the unexpected requirement to hold increased numbers of time-served foreign national prisoners while deportation was considered. NOMS established a substantial building programme to deliver over 8,000 new places by 2012 and devoted substantial effort to identifying ways of managing demand. The prison build programme received a green Gateway™ 0 Review in early 2007.
- **Serious and further offences in the community.** A series of high profile serious further offences such as the Monckton and Bryant cases meant that the probation service was subject to sustained scrutiny. The Chief Inspector of Probation undertook independent reviews into the management of both cases. Whilst risk cannot entirely be eliminated, we have increased focus on ensuring that offender managers work in accordance with national policy, guidance and standards. In every case of serious further offending, probation areas are required to undertake reviews of how offenders were managed and submit those reviews for quality assurance by the Public Protection Unit. The recommendations from the inspectorate reports into the Monckton and Bryant cases have been implemented. NOMS is also implementing the recommendations from a review designed to improve the quality of information provided to the Parole Board. The Director of Performance and Improvement has been appointed Senior Responsible Officer for Public Protection at NOMS Board level.

#### *Office for Criminal Justice Reform*

The Office for Criminal Justice Reform (OCJR) is a cross-departmental organisation that supports the Department for Constitutional Affairs (now Ministry of Justice), Crown Prosecution Service and the Home Office. In addition to this the OCJR is also responsible for two Non-Departmental Public Bodies, the Criminal Cases Review Commission (CCRC) and Criminal Injuries Compensation Authority (CICA).

During the financial year 2006-07 the systems and processes that operated within OCJR itself were reasonably sound and able to deal with the majority of both internal and external pressures that arose. The main issues that were faced during this period related to the overspend on Miscarriages of Justice Compensation payments made by the Better Trials Unit within the Criminal Case Management Directorate of OCJR, requirements to obtain retrospective approvals within CCRC and weaknesses in the financial management capabilities of the CICA.

A combination of internal management redress, escalation to the OCJR Budget Support Group and further escalation and liaison with Home Office central finance helped to ensure that these issues were managed and brought under more effective control. Financial management issues relating to CICA continue to be tackled: with the introduction of a new management team and improved financial planning and monitoring, this aim will be successfully achieved.

#### *Immigration and Nationality Directorate (now Border and Immigration Agency)*

Since the July 2006 publication of the review document<sup>3</sup> an overall transformation programme has been established to deliver the specific commitments made in the review.

The programme is organised into the delivery of the Agency's four key strategic objectives and seven programmes to deliver improvements to its underlying capability. In total there are approximately 40 projects and programmes working to deliver these objectives and capability improvements.

<sup>3</sup> *Fair, Effective, Transparent and Trusted: Rebuilding Confidence in our Immigration System.*  
<http://www.bia.homeoffice.gov.uk/aboutus/newsarchive/indreview>.



Overall progress has been good with all except two of the 47 milestones for December 2006 and April 2007 being achieved.<sup>4</sup> In summary, the key areas of progress against each of the four strategic objectives and the overall capability programme are set out below.

- **Strengthen our Borders:** good progress with the e-Borders capability which is the major programme to strengthen our borders. In addition, the trial of uniforms and signage is complete and there have been continuing achievements with the "Semaphore" programme and with IRIS. Technical issues around biometric visa rollout have been overcome and the programme is back on track.
- **Fast track asylum:** the New Asylum Model has been implemented and a programme to resolve the 400,000 – 450,000 unresolved asylum case records, as announced by the Home Secretary to Parliament in July 2006, is underway. A measure of success is the "tipping point" – removing more failed asylum seekers than there are unfounded claims: the good tipping point performance for 2006 was not sustained in 2007, but plans are in place to make improvements, and asylum intake remains low.
- **Ensure and enforce compliance:** the Enforcement Strategy was published and an implementation team is being created. Contestability pilots have been developed and consultation with the Trade Unions has begun.
- **Foreign National Prisoners (FNPs):** business processes have now been improved, staff training has improved productivity and the Directorate is being re-organised to a more efficient structure in order to make it easier to identify FNPs coming to the end of a sentence and deport them where appropriate.
- **IT Contract Management:** in June 2007, a progress summary of an NAO report on BIA systems confirmed the continuing weaknesses in the management and control of the IPIDS contract. The resolution of this contractual and delivery difficulty is under active management by Senior Directors across all appropriate disciplines within BIA and Home Office. Commercial controls introduced since May 2006 have resulted in significant and sustained reductions in levels of expenditure with improved value for money.
- **Boost Britain's Economy:** the Points, Identity and Documentation Programme is progressing well and the main Points Based System IT contract has been signed.
- **Capability Programmes:** the shadow agency was launched and regional structures were put in place. In addition, work is progressing on the cultural change required to underpin the overall transformation as well as specific projects to address risk management and management information.

#### *Identity and Passport Service*

The Identity and Passport Service (IPS) operates in an environment of significant change and has an increased public profile, especially in view of our responsibility for National Identity Scheme delivery. IPS endeavours to meet these challenges by ensuring that it has the right skills and resources in place with a focus on effective delivery of change.

Subsequent to its launch in April 2006 the Agency was reorganised and as a result the governance structures were refined and the Management Board strengthened to give the Agency the management depth and breadth to meet our new strategic challenges.

IPS also reviewed the delivery options and restructured the programme for the National Identity Scheme.

IPS seeks continuously to improve its processes and controls, aligning planning, resourcing and other management activity with key risks. Action plans to address identified issues and continuously improve the system of internal control are being progressed.

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<sup>4</sup>In relation to the two other milestones: slippage was reported on the interim milestone of biometric visas for 100,000 visa nationals per month (the overall programme milestone for April 2008 was still on track); the second missed milestone was the tipping point – see the text in the second bullet point (Fast track asylum).

*The Respect Task Force*

The Respect Task Force is responsible for the delivery and implementation of the Respect Action Plan published in January 2006.

Internal control is a unit wide concern and the unit has ensured that controls are in place for key elements of work that the Task Force has undertaken, for example, the issuing of grants to local authorities. Processes in this area were scrutinised by central Home Office finance which found the system of issuing grants to be robust with the appropriate controls placed upon it.

*Corporate Services*

Processes led by corporate services where there had been a number of control issues referred to in the Statement on Internal Control in the 2005-06 Departmental Resource Accounts are discussed in more detail below, under "*Significant internal control issues*".

*Financial and Commercial:* overall the system of internal control worked adequately, although the problems that exist with Home Office finance and procurement systems arise locally in this area too. However, there were areas where improvement is needed. There were overspends against budget limits in two areas, but these were forecast and managed effectively within Financial and Commercial as a whole, and improved arrangements have been put in place for 2007-08. The merger of two IT units with different procurement systems led to some lack of clarity on roles and processes; during 2007-08 a single cohesive procurement process will be put in place in this area, identifying roles and responsibilities clearly. Damage to a telephone cable showed the need to improve contingency planning in this area.

*Human Resources:* there have been control weaknesses in:

- managing the Home Office Pay and Pensions Service delegated budget – largely due to non-recurring items;
- managing the Strategic Diversity Action Team delegated budget – due to transition problems in the migration of the team from the Communities Group; and
- reconciling the payments made by Capita (pensions administrator) for early departed staff, to the provision set aside by the Department.

The Budget Support Team within the HR Directorate has now been fully resourced to deal with such issues in future, and from 30 May 2007, is led by a management accountant to provide further expertise.

**Review of effectiveness**

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

**The Process for maintaining and reviewing the effectiveness of the control system***Home Office Board*

As described above, the Home Office Board maintains and reviews the effectiveness of the control system.

*Audit Committee*

The Home Office Audit Committee provides independent advice to me (as the Departmental Accounting Officer) as well as Board members and Ministers on the adequacy of arrangements for corporate governance, risk management and internal control in the Home Office.

In accordance with best practice the Committee is wholly independent consisting of six non-executive members. This includes the Chairman (who is also a non-executive member of the Home Office Board) and representatives of the NOMS and IND (now BIA) Audit Committee's. I, the Home Office Director General Financial and Commercial and Director of Finance and Performance also attend committee meetings. During 2006-07 the Audit Committee met five times.

The Audit Committee draws assurance on internal control from a variety of sources including internal audit and the various audit committees within the core Department and Non-Departmental Public Bodies and Agencies. Assurance is also gained through, for example, various project and programme boards, Gateway Reviews and other bodies such as HM Inspectorate of Constabulary.

#### *Internal Audit*

The Department's internal audit function carries out a risk based programme of audits annually and operates in accordance with Government Internal Audit Standards. The Chief Internal Auditor (CIA) provides regular reports on findings to the Committee and gives advice on governance, risk and internal controls, making recommendations for improvement. Each year the CIA provides me with an independent opinion on the adequacy and effectiveness of the Department's risk management, control and governance processes.

#### *External Audit*

The National Audit Office forms an opinion on the Department's financial statements as well as conducting good governance reviews and carrying out value for money audits in year. They attend all Audit Committee meetings.

#### *Assurance Board*

The Assurance Board monitors the progress of the Finance Improvement Strategy and reviews progress in accounts preparation against plan. It brings together senior representatives from the Home Office, HM Treasury and the National Audit Office.

### **Significant internal control issues**

#### *Introduction*

I reported in my 2005-06 Statement on Internal Control that there were significant internal control issues and set out the steps that had been taken and were planned to address these. Good progress has been made, but much remains to be done. Significant internal control issues remain and the Home Office is addressing them. This part of the Statement on Internal Control now sets out the background to the issues, reports the progress that has been made, offers an assessment of the present position, and sets out a work programme for the future.

#### *Disclaimed Accounts for 2004-05 and Cabinet Office Capability Review*

A number of recent events identified the need for significant improvements in internal controls, including:

- the 2004-05 accounts had been disclaimed by the NAO in January 2006, citing a lack of proper financial books and records; and
- the July 2006 Cabinet Office Capability Review of the Home Office<sup>5</sup> set out the need for improvements in particular as regards vision, leadership and a clear sense of direction.

#### *The state of the control framework described in the 2005-06 Statement on Internal Control*

The 2005-06 Statement on Internal Control identified a number of issues with financial processes, including:

- there were unplanned changes in key personnel for the 2005-06 accounts production process and the key staff members who ultimately produced the accounts were not in post until late in the process;

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<sup>5</sup> [http://www.civilservice.gov.uk/reform/capability\\_reviews/publications/pdf/Capability\\_Review\\_HO.pdf](http://www.civilservice.gov.uk/reform/capability_reviews/publications/pdf/Capability_Review_HO.pdf).

- there was a lack of understanding and ownership over key processes and balances in many general ledger areas;
- lack of high quality records in some areas caused difficulties in providing sampling evidence for the audit;
- difficulties with the system for identifying accruals (liabilities to pay suppliers where no invoice has yet been received) meant that some items were treated as 2005-06 accruals that had been paid or that related to 2006-07 activity, and the Home Office could not prove that there was no significant duplication between different types of accruals;
- invoices could be paid without being properly matched to purchase orders;
- work to match Home Office records to supplier records was deferred;
- key reconciliations were not carried out in-year but only after the year-end;
- cash management procedures were ineffective, resulting in a significant overdraft with the Office of the Paymaster General;
- personnel records were difficult to find, and some could not be found at all. The flow of information on staff moves was patchy: for example systems administrators were not always told when staff had left and so did not close their system access;
- procurement regulations are not always followed and purchase orders may be created retrospectively;
- while there was no fraud issue, there was the risk of irregular expenditure on grants because of inadequate monitoring; and
- monitoring of income against the Appropriation in Aid limit was ineffective.

The 2005-06 Statement also recognised a number of issues to come:

- there was a need to devise a regime for funding for Local Area Agreements that provides assurance that funding is spent on Home Office objectives; and
- the transfer of the Home Office's Communities Group to the Department for Communities and Local Government and the Cabinet Office during 2006-07 and the decision to confer Agency status on the Border and Immigration Agency in the future both represent accounting challenges.

*The 2005-06 accounts were qualified by the National Audit Office*

The NAO qualified the accounts in respect of the identification of accruals referred to above, and also made a technical qualification because of the knock-on impact of the disclaimed opinion on the 2004-05 accounts.

Nonetheless, the NAO said about the 2005-06 accounts: "Today's report shows that the Home Office has worked to address many of the fundamental problems in the 2004-05 accounts and has been able to provide a much improved set of accounts for 2005-06. This situation represents a significant step forward for the Home Office".

*Improvement plans described in the 2005-06 Statement on Internal Control*

The 2005-06 Statement on Internal Control listed a number of initiatives under way to bring about substantial improvements, including:

- better governance;
- organisational changes to the financial accounting function;
- a number of specific improvements to finance processes;

- the establishment of a Finance Improvement Strategy with a dedicated programme team to assess the current process and controls weaknesses, stabilise the control environment through the implementation of remediation plans, and make further improvements to create a robust control environment; and
- measures to strengthen capability and skills.

#### *Reform Action Plan*

The Statement on Internal Control also described the July 2006 Home Office Reform Action Plan *From Improvement to Transformation* which set out the response to the Cabinet Office's Capability Review in a four part plan:

- defining public protection as the core purpose of the Home Office, with six guiding objectives;
- changes to the leadership team to strengthen the Board and the top leadership;
- improved structure and governance arrangements; and
- a reform programme with seven strands, including better risk management, improved allocation of resources to priorities, better quality data, more reliable systems and processes, and more effective programme and project management.

#### *Improvements since the 2005-06 Statement on Internal Control*

I now set out some of the changes that have been made and planned since the 2005-06 Statement on Internal Control was prepared.

The Home Office's 2005-06 Departmental accounts were laid in December 2006, relatively late in the reporting cycle for Government Departments. Thanks to process improvements that have been made, the 2006-07 accounts are being laid earlier (though still behind most other Departments). However, that does mean that there has been a relatively short time between Statements on Internal Control for changes to be made.

#### *Progress on the Reform Plan*

Since last summer, we have been delivering a wide range of projects set out in the Reform Action Plan on issues such as improving the way we manage risk, better policy making, improving performance management, and looking at the shape of our organisation and the way the centre relates to our businesses and Agencies. We have made progress on some of the most challenging issues:

- we have strengthened our leadership team;
- we have improved our systems – although some are still fragile;
- we have a clearer structure that focuses on front-line delivery;
- we are more alert to operational risks; and
- we have matched resources to priorities.

We met all our Reform milestones in September and December 2006 and April 2007.

We are now moving to the next phase of reform. We intend to give particular emphasis to how we lead the Department, our values and behaviours, how we work with partners to develop policy and deliver services, and how we initiate and monitor delivery of programmes and projects.

#### *Machinery of government change*

On 29 March 2007, the Prime Minister announced<sup>6</sup> changes to the machinery of government. The changes were designed to strengthen the role of the Home Secretary and the capabilities of the Home Office to deal with the real and unprecedented threat of terrorism. The changes included the creation of a new Office for Security and Counter-Terrorism, based in the Home Office. A Ministry of Justice was created on 9 May 2007,

<sup>6</sup> <http://www.pm.gov.uk/output/Page11377.asp>.

taking in the National Offender Management Service (including the Prison and Probation Services) and lead responsibility for criminal justice and sentencing policy from the Home Office. The Ministry of Justice now also hosts the Office for Criminal Justice Reform, although it remains trilateral.

These changes will further help the Home Office address some of the issues raised in the Capability Review including the need to set a clear vision and sense of direction for the Home Office as an organisation.

At the technical level, while the changes do not have a material impact on the 2006-07 accounts, they do present an additional challenge for the production of the 2007-08 accounts.

#### *Record Management issues*

Under the Lord Chancellor's Code of Practice on Record Management produced under Section 46 of the Freedom of Information Act 2000, departments have an obligation to establish and implement good practice on a wider range of information and record management activities.

The Department recognised that we needed to undertake additional work in order to comply fully with our obligations. Following an internal audit report in December 2005 designed to scope the compliance work, we made improvements including drafting an Information and Record Management Strategy in June 2006.

In August 2006 the National Archives undertook an Information Management Assessment (IMA) of the Department's compliance with the Code of Practice. The conclusions of the IMA not only confirmed known problems but showed that the gap between standards and practice was wider than we had thought.

As a result, the Home Office has put in place an enhanced Response Action Plan Delivery Schedule, which covers all business areas. The work is expected to last a further two years. The key challenge then will be to ensure that good practice becomes part of business as usual.

#### *Progress on finance issues*

We have made good progress in a number of areas.

The Finance Improvement Strategy, and other associated development work, has brought in or enhanced a range of controls and processes:

- processes have been mapped and documented, and remediation actions have been identified to deal with problems; remediation action necessary to facilitate 2006-07 accounts production and the controls environment for 2007-08 has been implemented as a matter of priority;
- we now have a process in place to reconcile all of our bank accounts and balance sheet control accounts monthly, with reconciliation of other debtor and creditor codes taking place quarterly;
- the qualification to the 2005-06 accounts in relation to the accruals balance has been addressed through a comprehensive review of the opening and closing accruals balances in association with the strengthening of the in-year monitoring of accruals;
- record keeping has been improved, and new journal templates set up in order to make it easier to find source documentation;
- uniform procedures have been implemented in cash management which have improved forecasting and control in the area, aiding bank reconciliation; development of a consolidated grants list across the Department which is reconciled to the ledger. Process flows have been mapped for key grants including, grants to local authorities for asylum seekers and Crime and Disorder Reduction Partnership grants;
- forecasts of Appropriations in Aid are obtained monthly from business units, Agencies and NDPBs and monitored against limits set in Supply Estimates. Where forecasts indicate that income will exceed these limits and there is matching expenditure, we seek to revise limits on Appropriations in Aid through Supplementary Estimates;

- we have improved the accuracy and comprehensiveness of our fixed asset register;
- desk instructions have been completed for all processes undertaken by the central invoice processing team;
- a Chart of Accounts Review Panel has been established to control and manage changes to all elements of the chart of accounts. We have simplified the chart of accounts, which should improve the quality of data entry;
- processes for setting up new users, changing responsibilities and organisational structures within the Adelphi finance/ procurement/ HR database system have been refined and documented; and
- we have issued new guidelines and improved the system codes in order to improve compliance with VAT legislation.

Finance and Commercial Directorates have worked together to improve processes for procurement:

- last year's Statement on Internal Control (SIC) reported that "invoices could be paid without being properly matched to purchase orders". There is a range of payments which do not require purchase orders (for example, grants) and these are covered by the payments-only list. We have been proactive in dealing with cases where there should be a purchase order but the payments-only process is being used;
- last year's SIC also reported that work to match Home Office records to supplier records had been deferred. This year, the Adelphi Service Centre has regularly matched the Home Office's creditor balances against the debtor balances of the top ten suppliers by expenditure (covering about 25% of total expenditure). In addition, the Home Office aims to reconcile all supplier statements that are sent to it;
- work on improving the procure to pay (P2P) system as a whole has started. The P2P steering group has been re-established and workshops have identified areas of weakness/exposure. An improved report has been introduced to enable business units to monitor their invoices that are on hold awaiting receipt or correction of the order/invoice;
- action was taken to improve the prompt payment of invoices in the Adelphi Services Centre and led to almost a ten percentage point improvement. However, due to a small reduction in the performance of some of the Agencies, including transitional problems on the move to the new HM Prison Service shared services operation in Newport, the overall performance fell to 85% of payments paid on time, slightly down from 86% in 2005-06 (a correction to the 92% figure shown erroneously in the 2005-06 accounts); and
- it remains the case that procurement regulations are not always followed and purchase orders may be created retrospectively and invoices misdirected to business units (instead of being sent to the invoice processing centre). The P2P group will address these issues as a priority in 2007-08.

The production process for the 2006-07 accounts has been improved:

- the accounts production team was in place well before the start of the year with significant continuity in staffing between the 2005-06 and 2006-07 production teams;
- the high level and fully detailed accounts production time-tables were prepared, agreed with the NAO and issued to business areas in good time;
- a Quarter 3 pack was issued to business areas during 2006-07 in order to bring forward work and so make it easier to meet the earlier deadline, and to improve the quality of data for in-year control;
- training events and workshops were held to ensure greater understanding of the information and data requirements and to improve communication; and
- audit sampling processes which provide assurance on the quality, completeness and accuracy of the information supplied have been much improved smoothing the way in which we provided the NAO with evidence for their audit.

We have made changes to improve financial management:

- we have set up a Financial Management Change Board with corporate finance and business areas working together to drive forward strategic change;
- we have introduced a New Operating Model – Finance with improved procedures for Home Office Board approval of business plans and of new policies; and
- the new departmental finance framework describes relationships and includes new measures such as arrangements if business areas should overspend against their budget.

We have acted to improve the capability of finance staff:

- we have recruited permanent qualified finance directors for the Identity and Passport Service, the Border and Immigration Agency and the National Police Improvement Agency;
- we have recruited a new deputy director level Head of Financial Accounting;
- we have recruited six additional qualified accountants as permanent staff for operational roles in central finance;
- as a result, all of the consultants who have been supporting the FIS and accounts production left; and
- the finance manual was out of date and we have produced a complete replacement with a programme of quarterly revisions to ensure that it is kept up to date.

Improvements to processes have been in many parts of the Home Office, for example human resources, pay and policy-making:

- HR records are currently held in both hard copy and electronic formats. Improvements have been made to ensure that hard copy paperwork is maintained on files and that information sourced from the business is provided in an accurate and timely manner. Access to the electronic HR file tracking database has been extended to Pension Services and additional staff in HR Operations to improve the tracking of files and general record keeping;
- recurring pay changes now filter through to payroll from the Adelphi integrated database system via an interface. A monthly data alignment exercise is carried out to ensure the two systems remain in tandem. In addition Home Office Pay and Pensions Service provide HR with monthly starter and leaver reports to reconcile against Adelphi data input; and
- a new process of Policy to Delivery (P2D) workshops has been introduced. These workshops are designed to ensure that the deliverability aspects of new policy initiatives are properly tested before a programme is launched. 8 P2D workshops have been run so far.

*Assessment: 2006-07 Accounts and financial processes*

As a result of these changes, the underlying control framework has been improved. Backlogs of reconciliations have been cleared and new regular processes are in place. Because the improvements were made over the course of the year, the full effect of their in-year control benefits will appear in 2007-08. However, the combination of these process changes and the smoother 2006-07 accounts production process means that the numbers in these accounts are more robust than those in the 2005-06 accounts.

*Further improvements to come*

The position is, however, still not as satisfactory as I would like it to be. I am well aware of how far there is still to go. We will therefore continue to work to make further new improvements as well as consolidating the changes already made.

In the context of the Home Office's overall reform programme, the Financial Management Change Board will press forward a delivery programme that will:

- advance the financial management of our resources;
- progress changes to basic processes and data quality through the Financial Improvement Strategy;



- improve the way in which we produce the Departmental resource accounts; and
- develop the capability of finance staff.

We will also work to develop procure to pay processes and the capability of procurement staff.

**Conclusion**

Compared with the position two years ago a great deal of progress has been made. Nonetheless, I am aware that much remains to be done to improve the risk and control framework. The measures that are in place and that have already shown results will continue to generate improvements in the months and years to come. I look forward to the point when there will no longer be significant control issues to report.

David Normington  
Accounting Officer  
27 September 2007

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

I certify that I have audited the financial statements of the Home Office for the year ended 31 March 2007 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration 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 and the part of the Remuneration Report to be audited 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 report to you whether, in my opinion, certain information given in the Annual Report, which comprises only the Department's scope, purpose and objectives, performance review, financial review, management of the Department, corporate governance, public interest and the unaudited part of the remuneration report, is consistent with the financial statements. 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.

In addition, I report to you 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 Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate 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 opinions

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 judgment 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

### Audit Opinion

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 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs 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
- information given within the Annual Report, which comprises only the Department's scope, purpose and objectives, performance review, financial review, management of the Department, corporate governance, public interest and the unaudited part of the Remuneration Report is consistent with the financial statements.

### Audit Opinion on Regularity

In my opinion, 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.

*John Bourn*

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

8 October 2007

## Report of the Comptroller and Auditor General to the House of Commons

### Introduction

1. The purpose of the Home Office (the Department) is to build a safe, just and tolerant society, to enhance opportunities for all, and to ensure that the protection and security of the public are maintained and enhanced.
2. The Resource Accounts of the Home Office consolidate the accounts of the core Department with those of HM Prison Service, the Identity and Passport Service, the Criminal Records Bureau and the National Probation Service. On 9 May 2007 the Department's activities were changed. Responsibility for prisons, probation and the criminal law and sentencing was transferred to a new Ministry of Justice.

### Purpose of Report and Key Findings

3. The purpose of this Report is to explain how the Department has addressed the underlying causes of the issues which led to the qualification of my audit opinion on its Resource Accounts for 2005-06. As a consequence of this work the Department has restated its financial position as at 31 March 2006. Taking into account this prior period adjustment and my regular annual work I am able to provide an unqualified opinion for the Resource Accounts for 2006-07.
4. This represents a significant step forward for the Department. A number of improvements have been made to ensure key financial processes are now documented, a revised Finance Manual has been produced and shared with staff, and training has been provided to help support the improved financial processes. In addition, considerable remedial action has been undertaken, particularly regarding key matters such as bank and balance sheet control account reconciliations and procedures to improve the production process for the annual financial statements. However, while considerable progress has been made along the journey towards excellent financial management and reporting to which the Home Office aspires, much remains to be done both to consolidate these changes and to rise to the challenges of the future.
5. This Report:
  - notes progress made during the year to address the significant internal financial control weaknesses highlighted in my Report of the Resource Accounts for 2005-06 (HC 124, 2005-06);
  - sets out the further steps taken by the Department to improve its financial management and the internal control environment; and
  - analyses the challenges that the Department faces in maintaining those improvements.

### My obligations as auditor

6. Under the Government Resources and Accounts Act 2000 (the Act), I am required to examine and certify all departmental Resource Accounts received under the Act. I am required, under International Standards on Auditing (UK and Ireland), to obtain evidence to give reasonable assurance that the Department's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

### Audit Opinion

#### Unqualified audit opinion

#### Unqualified opinion following the restatement of the 2005-06 accruals balance through a prior year adjustment

7. I qualified my opinion on the Home Office's 2005-06 financial statements due to a limitation in the scope of my audit because the Department was unable to provide sufficient evidence that the accruals balance of £592,500k at 31 March 2006 was not overstated. My staff identified, through audit testing, that:

- there was an overstatement within the accruals balance due to items being included in the balance which had been paid before the year end, items being included relating to 2006-07 activity and a lack of evidence for certain items;
- the Department was unable to provide sufficient evidence that there was no significant duplication between manual accruals<sup>7</sup>, system accruals<sup>8</sup> and trade creditors<sup>9</sup>;
- system weaknesses during the 2005-06 financial year enabled invoices to be paid without being properly matched to system purchase orders. This weakness resulted in a high number and value of unmatched purchase orders at 31 March 2006, and insufficient evidence that all accruals resulting were valid; and
- work to match the Department's records to supplier records proved difficult and time consuming.

8. As a consequence of these problems, assurance could not be gained to conclude upon the appropriateness of the year-end accruals balance. Subsequent testing of this balance performed by the Department during the 2006-07 financial year has led to the assessment that the accruals balance was overstated by £105.3 million, a material amount in the Department's Resource Accounts. The Department concluded that the error was fundamental to the truth and fairness of their Resource Accounts and should, therefore, be corrected by means of a prior period adjustment in line with Financial Reporting Standard 3 *Reporting Financial Performance*<sup>10</sup>. The additional work undertaken by the Home Office on the manual and system accruals has enabled me to remove my qualification on this balance. The errors were caused by a number of factors which can be analysed into those relating to systems accruals and those for manual accruals. System accruals errors occurred as a result of:

- invoices being paid without being matched against purchase orders, resulting in the liability being discharged but the accrual still being recorded in the system; and
- accruals being recognised with insufficient evidence that goods or services had been received by the year-end.

Manual accruals errors were caused by:

- accruals being recorded for payments which were made before the year-end; and
- poor estimates and valuations of accruals where better information was available at the time.

9. An explanation of the resultant prior period adjustment is disclosed in Note 37 to the financial statements on page 102. My staff have audited the adjustment and I am satisfied that the restated figures show a true and fair view of the state of affairs of the Home Office at 31 March 2006.

#### **How the Home Office addressed the overstatement in accruals during 2006-07**

10. To address the issues set out above the Home Office issued a revised Finance Manual, in addition to other support and training to educate staff about the appropriate financial procedures and to increase the understanding across the Department of what constitutes an accrual. Furthermore, upon submission of manual accruals for inclusion in the financial statements, information was cross-checked to supporting information, including invoices paid and goods received to ensure that the accruals that had been created were reasonable. This education and challenge function has improved the reliability of accruals in the financial statements.

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<sup>7</sup> Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. A manual accrual must be created by a person.

<sup>8</sup> A system accrual is generated automatically by the accounting system.

<sup>9</sup> Trade creditors are liabilities to pay for goods and services that have been received or supplied and have been invoiced or formally agreed with the supplier.

<sup>10</sup> Financial Reporting Standard (FRS) 3 states that adjustments can, and should, be made to prior periods if they arise from the correction of fundamental errors.

11. There remain some serious underlying issues with system generated accruals which need to be addressed urgently to allow the Home Office to capitalise on the capability of the financial system to automatically generate reliable year-end accruals balances. This will, ultimately, assist the accounts production at year-end and the ability of the Home Office to meet Her Majesty's Treasury's Faster-Closing agenda.

12. The remaining issues which need to be resolved to address the risk of material overstatement to the accruals balance include:

- inappropriate reversals of system generated accruals after the year end;
- the use of retrospectively created purchase orders which results in the Home Office being uncertain that the procurement of goods and services is always in accordance with procurement regulations, or that payments match appropriately authorised orders;
- an inability to reconcile Home Office records of amounts owing to suppliers to suppliers' records; and
- weaknesses in matching purchase orders and invoices.

13. To address these weaknesses the Home Office undertook significant remedial action after the year-end to ensure that the 31 March 2007 accruals balance was reasonably stated. This process was costly both in resources and time.

14. As a result of the remedial action undertaken by the Home Office for both manual and system accruals, and the audit work my staff have undertaken to check these actions, I am satisfied that the accruals balance at 31 March 2007 is, in all material respects, true and fair.

#### **Progress on issues reported in 2005-06**

15. As in 2005-06, the Department has continued to place a great deal of reliance on manual returns to record creditors, accruals, prepayments and debtors year-end balances for the Resource Accounts for 2006-07. Although we acknowledge that, as expected, a greater volume of transactions are now processed through the automated system, the continued reliance on this manual process, which is heavily burdensome on resources, is prone to human error.

16. As in 2005-06, the Department experienced some difficulties when trying to locate manual records to support transactions, although the delays and problems this year did not result in any material uncertainties.

17. Improvements have been made to the regime for monitoring grants issued through Local Area Agreements, although the results of work the Department has undertaken to establish the robustness of grants monitoring throughout the Home Office suggests that significant underlying issues remain, particularly in relation to the consistency of the monitoring frameworks in place.

18. Careful consideration of the above issues has led me to conclude that high quality financial management is not yet fully embedded throughout the Department, which results in significant remedial action being required after the year-end to adjust the year-end financial statements to a true and fair position. This risks significant adjustments being identified after the year end which would not have been reflected in the Department's management accounts, which are used to support key decisions in the year. This also affects their ability to produce financial statements efficiently and, unless significant improvements are made in the coming months, will hinder the Home Office's ability to meet the faster-closing agenda for 2007-08. Most Government Departments achieved this target in 2005-06.

#### **Production of Resource Accounts for 2006-07**

19. I certified these accounts on 8 October 2007, some two months earlier than the date that was achieved for 2005-06. This reflects significant progress made by the Department in improving the production process for the 2006-07 financial statements.

20. In addition, I am pleased to record the wider actions undertaken recently through their Financial Improvement Strategy to enhance financial management, a number of which have been highlighted by the Department in their *Statement on Internal Control* under the section on *Progress on finance issues*.

Nevertheless, some further challenges remain which warrant mention in this Report. These are set out below.

- A large amount of work has been undertaken on the debtor, creditor and fixed asset balances to ensure that they are fairly stated in the Resource Accounts, however, for much of this work the Department was reliant upon the input of third party consultants under the management of Home Office staff. All but one of these consultants left by the end of June. Considerable attention was paid to skills transfer and the reconciliations have been maintained but it remains to be seen whether there has been a successful handover of responsibility and capacity to Home Office staff to deliver in future years.
- The Department continues to place a great deal of reliance on year-end manual returns which increases the risk of duplication or omission of certain accounting information within the financial statements.
- Although key deadlines for delivery of draft accounts were met, this was at the expense of completeness and in some instances, accuracy. When we received the draft statements we were aware that the cash-flow statement had not been fully reconciled and the prior year figures were incomplete. Senior management had reviewed the accounts and were aware of these issues. My staff identified further problems with completeness and accuracy when reviewing the draft statements.
- Although the process for consolidation is much improved from previous years, the Department still faces a considerable challenge to work more closely with its Agencies to complete this process much more quickly and accurately in the future.

21. The Department will also need to focus on continuing to embed high quality financial management within the business to avoid the need for significant remedial action after the year-end and so achieve swift and accurate financial reporting. This can be achieved by implementing the various issues identified within the Department's Financial Improvement Strategy and proactively addressing the future challenges identified below.

#### **Future challenges**

22. The following areas pose significant additional challenges for the Department in the next 12 months.

- Three permanent and several temporary members of staff that had been involved in the improvements in accounts production during the last 18 months are no longer working within the accounts function of the Department. Some of the Department's increased capacity, introduced in response to the 2004-05 disclaimed audit opinion, has now been eroded, although recruitment of replacement permanent staff is under way. This places the Department at risk of loss of skill and I am concerned about the Department's ability to achieve further improvement. I believe that some further strengthening of capacity is needed if the Department is to be able to maintain, and even enhance, its momentum.
- Certification of the 2006-07 Resource Accounts in the Autumn rather than the Summer of 2007 is likely to have a direct effect on the Department's ability to produce certified financial statements for 2007-08 before the Summer Recess. This is a very ambitious target, being more than 2 months quicker than the certification date for the 2006-07 accounts. To achieve this, high quality financial management will need to be fully embedded throughout the Department to avoid time consuming remedial actions being necessary to adjust system generated balances.
- On 9 May 2007 the scope of the Department's activities changed significantly. Responsibility for prisons, probation and the criminal law and sentencing was transferred to a new Ministry of Justice. The Home Office is now responsible for co-ordinating security and counter-terrorism, in addition to their existing responsibilities for policing and crime reduction, borders and immigration, and identity and passports. This significant Machinery of Government change will necessitate a change to the Estimate for 2007-08 along with a subsequent adjustment to the financial reporting to reflect the change in responsibilities and this will necessitate early and accurate dis-aggregation of the relevant sub-budgets.

- From 1 April 2008 the Border and Immigration Agency (BIA) (formerly Immigration and Nationality Directorate) is aiming to become an executive agency. This entity will continue to be responsible for securing borders, preventing abuse of immigration laws and managing migration to the UK. From 1 April 2007, BIA has been operating under a shadow status in preparation for becoming a full executive agency of the Home Office. As a direct consequence, BIA's budgets will need to be fully disaggregated from the Home Office budgets and separate financial statements will need to be produced for the agency for 2008-09 including prior year comparator figures (i.e. for 2007-08). These financial statements will then need to be consolidated into the Home Office's Resource Accounts for 2008-09 and beyond. Our initial work suggests that ensuring that the opening balance sheet for the Agency is materially true and fair will be a major challenge, especially since the materiality threshold will tighten for the smaller agency compared with that applied to the balances when sat within the core closing balances of the 2006-07 Home Office Resource Accounts.
- Looking to the near future, a significant challenge lies ahead for all government bodies in the shape of International Financial Reporting Standards which are due to be introduced for financial reporting from 2008-09 onwards. With the adoption of these new standards of reporting, prior year balances will need to be restated. The Department recognises that this will need strong project management and good technical skills and understanding of the business to ensure satisfactory and timely implementation.

*John Bourn*

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8 October 2007



## Remuneration Report

### Remuneration policy

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

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

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

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

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

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

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

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

### Service contracts

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

Independent Non Executive members of the Home Office Board are recruited through fair and open competition. All Non Executive members of the Board are appointed by the Permanent Secretary. Non Executive members of the Board are appointed for an initial period of three years with an option to extend for a further three years. These appointments can be terminated with one month's notice period.

### Remuneration Committee

The Home Office remuneration committees determine the salaries paid to Senior Civil Servants within the Home Office. During 2006-07 the committees comprised:

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

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

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

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

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

#### **Salary and Pension Entitlements (Audited)**

The salary and pension entitlements of the most senior managers of the Department during 2006-07 were as follows:

#### **Salary**

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; ex-gratia payments; payments in lieu of notice; and any other allowance to the extent that it is subject to UK taxation.

Home Office Board members are eligible for bonus payments in accordance with the recommendations of the Senior Salaries Review Body. The Home Office did not award any bonuses to Board Members in respect of the 2006-07 financial year.

In respect of the transfer of Ministers and officials between the Home Office and other government departments, the Home Office has a policy of agreeing with the departments involved to pay the full month's salary in the month of leaving and no salary in the month of joining. Ministers and officials whose salaries were affected by this policy include: Rt Hon Dr. John Reid MP, Andy Burnham MP, Paul Goggins MP, Vernon Coaker MP, Gerry Sutcliffe MP, Joan Ryan MP, and Ursula Brennan.

**Benefits in Kind**

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument. Benefits reported include the private use of a car, travel and accommodation. The 2005-06 comparatives have been restated to reflect benefits in kind related to the prior year.

Ministers	2006-07		2005-06	
	Salary £	Benefits in kind (to nearest £100)	Salary £	Benefits in kind (to nearest £100)
Rt Hon Dr. John Reid MP Secretary of State (joined 6 May 2006)	63,407	–	–	–
Rt Hon Charles Clarke MP <sup>11</sup> (left 5 May 2006)	25,974	–	74,902	–
Desmond Brown MP (left 9 May 2005)	–	–	9,713	–
Tony McNulty MP	39,404	–	29,788	–
Caroline Flint MP (left 9 May 2005)	–	–	7,373	–
Andy Burnham MP (left 5 May 2006)	4,915	–	26,320	–
Baroness Patricia Scotland of Asthall QC <sup>12</sup>	115,230	–	113,042	–
Paul Goggins MP (left 5 May 2006)	4,915	–	29,491	–
Fiona McTaggart MP <sup>13</sup> (left 5 May 2006)	10,227	–	31,467	–
Liam Byrne MP (joined 6 May 2006)	35,602	–	–	–
Vernon Coaker MP (joined 6 May 2006)	25,278	–	–	–
Gerry Sutcliffe MP (joined 6 May 2006)	24,965	–	–	–
Joan Ryan MP (joined 6 May 2006)	25,211	–	–	–
Hazel Blears MP (left 5 May 2006)	13,473	–	35,616	–

<sup>11</sup> Rt Hon Charles Clarke MP received a payment in lieu of notice upon leaving the Home Office.

<sup>12</sup> As Baroness Scotland sits in the House of Lords, she is not in receipt of an MP's salary so her full Minister's salary is reported here, whereas the salary shown for the other Ministers only relates to the difference between their MP's salary and their Minister's salary, as the MP element is paid via the House of Parliament and not the Home Office.

<sup>13</sup> Fiona McTaggart MP received a payment in lieu of her notice upon leaving the Home Office.

Officials	2006-07		2005-06	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Sir David Normington <i>Permanent Secretary</i>	185-190	1,300	40-45 175-180 <i>full year equivalent</i>	300
Sir John Gieve <i>Permanent Secretary</i>	–	–	125-130 170-175 <i>full year equivalent</i>	–
Ursula Brennan <i>Chief Executive, Office for Criminal Justice Reform (from 8 May 2006)</i>	110-115 130-135 <i>full year equivalent</i>	2,300	–	–
Martin Bryant <i>Director of Strategy (until 19 November 2006)</i>	95-100 150-155 <i>full year equivalent</i>	–	150-155	–
Mark Carroll <i>Director General (Acting), Communities Group (until 30 November 2006)</i>	75-80 110-115 <i>full year equivalent</i>	–	35-40 105-110 <i>full year equivalent</i>	–
Helen Edwards <i>Chief Executive, National Offender Management Services</i>	150-155	12,400	120-125	4,100
Mary (Jane) Furniss <i>Chief Executive (Acting), Office for Criminal Justice Reform (until 4 June 2006)</i>	15-20 95-100 <i>full year equivalent</i>	–	25-30 70-75 <i>full year equivalent</i>	–
James Hall <i>Chief Executive, Identity and Passport Services (from 11 October 2006)</i>	80-85 170-175 <i>full year equivalent</i>	5,900	–	–
Lin Homer <i>Director General, Immigration and Nationality</i>	200-205	8,100	130-135 195-200 <i>full year equivalent</i>	4,000
William Jeffrey <i>Director General, Immigration and Nationality</i>	–	–	5-10 155-160 <i>full year equivalent</i>	–
Helen Kilpatrick <i>Director General, Financial and Commercial<sup>14</sup></i>	185-190	–	170-175 180-185 <i>full year equivalent</i>	–

<sup>14</sup> Helen Kilpatrick's salary includes an accommodation allowance of £20k. In the 2005-06 financial year, the accommodation allowance of £18.7k was disclosed as a Benefit in Kind.

Officials	2006-07		2005-06	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Leigh Lewis <i>Permanent Secretary Crime Policing, Counter-Terrorism and Delivery</i>	–	–	105-110 170-175 <i>full year equivalent</i>	–
Peter Makeham <i>Director General, Performance and Reform (from 10 July 2006)</i>	100-105 150-155 <i>full year equivalent</i>	–	–	–
John Marsh <i>Group HR Director</i>	115-120	400	115-120	400
Martin Narey <sup>15</sup> <i>Chief Executive, National Offender Management Service</i>	–	–	70-75 140-145 <i>full year equivalent</i>	–
William Nye <i>Director General (Acting), Financial and Commercial</i>	–	–	5-10 110-115 <i>full year equivalent</i>	–
Moira Wallace <i>Director General, Crime Reduction and Community Safety Group</i>	150-155	7,800	50-55 150-155 <i>full year equivalent</i>	3,100
<b>Non-Executive Board Members</b>				
Denise Kingsmill CBE	–	–	10-15	–
Derrick Anderson CBE	10-15	–	10-15	–
John Heywood <i>(from 2 January 2007)</i>	0-5 15-20 <i>full year equivalent</i>	–	–	–
Lord Patrick Carter <i>(until 30 November 2006)</i>	10-15 15-20 <i>full year equivalent</i>	–	30-35	–

The above non executive Board members are those who sit on the Home Office Board. Other non executive Directors are employed by the Department's Agencies and NDPBs and their details can be found in the accounts of these bodies.

### Starting and leaving dates

Ursula Brennan was appointed as Director General, Office for Criminal Justice Reform on 8 May 2006 filling the post left vacant since the departure of Mary Furniss, and Peter Makeham was appointed Director General, Performance and Reform on 10 July 2006. James Hall was appointed as Chief Executive of Identity and Passport Services on 11 October 2006 and given a place on the Home Office Board. Martin Bryant left his post as Director of Strategy on 19 November 2006 and Mark Carroll left the Home Office on 30 November 2006. Lord Patrick Carter left the Home Office as non executive Director on 30 November 2006 and was replaced on 2 January 2007 by John Heywood.

<sup>15</sup> In addition to the salary disclosed in this table, the Department also made a compensation payment to Martin Narey in respect of early severance. This is not included here. Please refer to Note 33 losses and special payments for further details.

## Pensions (audited)

Ministers	Accrued pension at age 65 as at 31 March 2007 £'000	Real increase in pension at age 65 £'000	CETV <sup>16</sup> at 31 March 2007 £'000	CETV at 31 March 2006 £'000	Real increase in CETV £'000
Rt Hon Charles Clarke MP Secretary of State (to 5 May 2006)	5-10	0-2.5	82	81	1
Rt Hon Dr. John Reid MP Secretary of State (from 6 May 2006)	10-15	0-2.5	168	145	10
Tony McNulty MP	5-10	0-2.5	46	37	3
Liam Byrne MP	0-5	0-2.5	11	5	2
Andy Burnham MP (to 5 May 2006)	0-5	0-2.5	5	4	-
Baroness Patricia Scotland of Asthal QC	10-15	0-2.5	133	108	10
Joan Ryan MP (from 6 May 2006)	0-5	0-2.5	30	22	3
Vernon Coaker MP (from 6 May 2006)	0-5	0-2.5	22	15	4
Gerry Sutcliffe MP (from 6 May 2006)	5-10	0-2.5	55	46	4
Paul Goggins MP (to 5 May 2006)	0-5	0-2.5	23	22	-
Fiona McTaggart MP (to 5 May 2006)	0-5	0-2.5	21	20	-
Hazel Blears MP (to 5 May 2006)	0-5	0-2.5	39	38	-

## Ministerial pensions

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

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

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with the changes in the Retail Prices Index. Members pay contributions of 6% 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. This 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 26.8% of the ministerial salary.

<sup>16</sup> Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

Officials	Accrued pension at age 60 as at 31 March 2007 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31 March 2007 £'000	CETV at 31 March 2006 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account Nearest £100
Sir David Normington (Permanent Secretary)	70-75 plus lump sum of 220-225	2.5-5 plus lump sum of 10-12.5	1,541	1,404	82	-
Ursula Brennan (Chief Executive, Office for Criminal Justice Reform)	55-60 plus lump sum of 175-180	5-7.5 plus lump sum of 15-17.5	1,186	978	103	-
Martin Bryant (Director of Strategy) – until 19 November 2006	0-5 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	67	47	15	-
Mark Carroll (Director General, Communities Group) – until 30 November 2006	5-10 plus lump sum of 15-20	0-2.5 plus lump sum of 2.5-5	92	74	14	-
Helen Edwards (Chief Executive, National Offenders Management Service)	5-10 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	158	124	26	-
Mary (Jane) Furniss (Chief Executive (Acting), Office for Criminal Justice Reform) – until 4 June 2006	30-35 plus lump sum of 95-100	0-2.5 plus lump sum of 0-2.5	589	621	13	-
James Hall <sup>17</sup> (Chief Executive, Identity and Passport Services)	-	-	-	-	-	-
Lin Homer <sup>18</sup> (Director General, Immigration and Nationality)	40-45 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	694	18	39	-
Helen Kilpatrick <sup>18</sup> (Director General, Financial and Commercial)	40-45 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	592	24	28	-
Peter Makeham (Director General, Performance and Reform)	85-90 plus lump sum of 0-5	10-12.5 plus lump sum of 0-2.5	1,678	1,332	198	-
John Marsh (Group HR)	30-35 plus lump sum of 90-95	0-2.5 plus lump sum of 2.5-5	429	413	12	-
Moira Wallace (Director General, Crime Reduction and Community Safety Group)	40-45 plus lump sum of 140-145	5-7.5 plus lump sum of 32.5-35	638	527	104	-

<sup>17</sup> James Hall is not a member of any Civil Service Pension Scheme and has opted out of the Stakeholder Pension Scheme.

<sup>18</sup> The CETV for Helen Kilpatrick and Lin Homer in 2005-06 was calculated manually as they had only recently joined the Home Office. Their full Public Sector service record was unavailable at that time and only the CETV relating to their service in the Home Office was included. The CETV at 31 March 2007 includes their previous Public Sector Service and the real increase figure is the true figure for the financial year.

### Civil Service Pensions

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

Employee contributions are set at the rate of 1.5% 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 in classic.

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).

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

### Cash Equivalent Transfer Values

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

### Real increase in CETV

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

David Normington  
Accounting Officer  
27 September 2007



## Statement of Parliamentary Supply

### Summary of Resources Outturn 2006-07

			Estimate				2006-07 Outturn			2005-06 Outturn*
									<i>Net Total outturn compared with Estimate saving/ (excess)</i>	<i>Prior year Outturn</i>
Note	<i>Gross Expenditure</i>	<i>A in A</i>	<i>Net Total</i>	<i>Gross Expenditure</i>	<i>A in A</i>	<i>Net Total</i>	<i>saving/ (excess)</i>	<i>Prior year Outturn</i>	<i>£000</i>	<i>£000</i>
			£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1	2	15,376,287	(1,175,240)	14,201,047	14,993,810	(1,105,920)	13,887,890	313,157	13,411,010	
<b>Total Resources</b>	3	<b>15,376,287</b>	<b>(1,175,240)</b>	<b>14,201,047</b>	<b>14,993,810</b>	<b>(1,105,920)</b>	<b>13,887,890</b>	<b>313,157</b>	<b>13,411,010</b>	
Non-operating cost A in A	4		17,286			17,286		-	40,408	

			2006-07 £000			2006-07 £000	Restated 2005-06 £000	
			<i>Estimate</i>			<i>Outturn</i>	<i>Net Total outturn compared with Estimate saving/ (excess)</i>	<i>Outturn*</i>
			£000	£000	£000	£000	£000	£000
Net Cash Requirement	Note	4	14,397,897		14,133,858	264,039	13,204,848	

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

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

	Note	Forecast 2006-07		Outturn 2006-07	
		£000	£000	£000	£000
		<i>Income</i>	<i>Receipts</i>	<i>Income</i>	<i>Receipts</i>
Total	5	183,964	183,964	219,674	193,921

\*The 2005-06 outturn figures have not been restated as these numbers were previously reported to Parliament.

Explanations of variances between Estimates and Outturn are given on pages 15 to 19 of the Annual Report

## Operating Cost Statement

for the year ended 31 March 2007

	Note	2006-07 £000			2006-07 £000			Restated 2005-06 £000	Restated 2005-06 £000
		Core Department	Consolidated	Department	Core	Consolidated	Consolidated		
		Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income		
<b>Administration Costs:</b>									
Staff Costs	9	227,603			380,039			253,894	401,383
Other administration costs	10		243,592			552,873		419,777	679,115
Income	12			(20,259)			(468,171)	(148,732)	(519,187)
<b>Programme Costs</b>									
<b>Request for resources 1</b>									
Staff Costs	9	555,548			2,735,020			470,849	2,476,568
Programme costs	11		11,419,973			11,443,967		10,566,760	10,602,080
Income	12			(541,369)			(889,046)	(403,318)	(728,188)
<b>Totals</b>		<u>783,151</u>	<u>11,663,565</u>	<u>(561,628)</u>	<u>3,115,059</u>	<u>11,996,840</u>	<u>(1,357,217)</u>	<u>11,159,230</u>	<u>12,911,771</u>
Net Operating Cost	3, 13			<u>11,885,088</u>			<u>13,754,682</u>	<u>11,159,230</u>	<u>12,911,771</u>

All activities are from continuing operations. The Machinery of Government changes reflected in these financial statements are disclosed in Note 37.2.

## Statement of Recognised Gains and Losses

for the year ended 31 March 2007

		2006-07		Restated 2005-06	
		£000		£000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Net gain/(loss) on revaluation of tangible fixed assets	14, 23	375,154	377,852	155,948	157,642
Net gain/(loss) on revaluation of intangible fixed assets	15	–	–	(302)	(302)
Net gain/(loss) on revaluation of investments	16	6,067	6,128	–	(133)
Actuarial gain/(loss) related to pension scheme	9	–	(287,348)	–	26,787
Receipt/(disposal) of donated assets	23b	–	12	–	33
<b>Recognised gains and losses for the financial year</b>		<b>381,221</b>	<b>96,644</b>	<b>155,646</b>	<b>184,027</b>

## Balance Sheet

as at 31 March 2007

	Note	Core Department	2007 £000 Consolidated	Core Department	Restated 2006 £000 Consolidated
<b>Fixed assets:</b>					
Tangible assets	14	7,234,845	7,478,043	6,682,754	6,888,101
Intangible assets	15	2,530	2,652	3,982	4,161
Investments	16	68,454	68,757	60,000	60,339
		7,305,829	7,549,452	6,746,736	6,952,601
Debtors falling due after more than one year	18	10	4,248	–	4,908
<b>Current assets:</b>					
Stocks	17	1,395	36,966	104	41,616
Debtors	18	342,107	459,430	534,649	618,086
Cash at bank and in hand	19	414,109	502,456	34,126	100,083
		757,611	998,852	568,879	759,785
Creditors (amounts falling due within one year)	20	(1,473,659)	(1,796,580)	(1,450,672)	(1,662,898)
<b>Net current assets</b>		(716,048)	(797,728)	(881,793)	(903,113)
<b>Total assets less current liabilities:</b>					
		6,589,791	6,755,972	5,864,943	6,054,396
Creditors (amounts falling due after more than one year)	20	(335,457)	(352,656)	(349,887)	(367,370)
National Probation Service Pension liability	9	–	(534,865)	–	(256,607)
Provisions for liabilities and charges	21	(103,340)	(191,516)	(88,441)	(198,133)
		<b>6,150,994</b>	<b>5,676,935</b>	<b>5,426,615</b>	<b>5,232,286</b>
<b>Taxpayers' equity:</b>					
General fund	22	4,041,280	3,558,267	3,687,430	3,783,300
Revaluation reserve	23a	2,109,714	2,118,619	1,739,185	1,746,451
Donated asset reserve	23b	–	49	–	42
Pension Reserve	23c	–	–	–	(297,507)
		<b>6,150,994</b>	<b>5,676,935</b>	<b>5,426,615</b>	<b>5,232,286</b>

David Normington  
Accounting Officer

27 September 2007

## Consolidated Cash Flow Statement

*for the year ended 31 March 2007*

		<u>2006-07</u>	<u>Restated 2005-06</u>
	Note	£000	£000
Net cash outflow from operating activities	24a	(13,291,365)	(12,446,254)
Capital expenditure and financial investment	24b	(505,008)	(413,271)
Payments of amounts due to the Consolidated Fund		(300,042)	(198,999)
Financing	24d	14,683,059	12,863,696
Increase/(decrease) in cash in the period	24e	<u>586,644</u>	<u>(194,828)</u>

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

for the year ended 31 March 2007

Aim	Gross	Income	2006-07	Gross	Income	Restated
	Expenditure		Net	Expenditure		2005-06
	£000	£000	£000	£000	£000	Net
						£000
Objective 1	7,519,844	(169,896)	7,349,948	6,999,572	(139,701)	6,859,871
Objective 2	5,228,417	(485,206)	4,743,211	4,955,335	(550,343)	4,404,992
Objective 3	279,085	(58,302)	220,783	229,222	(42,358)	186,864
Objective 4	2,084,553	(643,813)	1,440,740	1,975,017	(514,973)	1,460,044
<b>Net operating costs</b>	<b>15,111,899</b>	<b>(1,357,217)</b>	<b>13,754,682</b>	<b>14,159,146</b>	<b>(1,247,375)</b>	<b>12,911,771</b>

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

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

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

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

Explanations of variances between Estimates and Outturn are given on pages 15 to 19 of the Annual Report

## Notes to the accounts for the year ended 31 March 2007

### 1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006-07 **Government Financial Reporting Manual (FReM)** issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

The Balance Sheet as 31 March 2007 shows taxpayers' equity of £5,677m. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the Consolidated Fund. Such drawings will be in the form of Supply, approved annually by Parliament, to meet the Department's net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the service of the specific year or retained in excess of that need. All unspent monies including those derived from the Department's income, are surrendered to the Fund.

In common with other government departments, the future financing of the Department's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. It has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

#### 1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention modified to account for the revaluation of fixed assets, and stock where material.

#### 1.2 Basis of consolidation

These accounts comprise a consolidation of the core Home Office and its Agencies: HM Prison Service, the Identity and Passport Service, the Criminal Records Bureau, and the National Probation Service. The Agencies also produce and publish their own annual reports and accounts.

#### 1.3 Tangible fixed assets

##### 1.3.1 General

Tangible fixed assets are stated at the lower of replacement costs and recoverable amount. The capitalisation threshold for expenditure on tangible fixed assets across Home Office is between £500 and £5,000. On initial recognition, they are measured at cost, including any costs directly attributable to bringing them into working condition, such as installation. All tangible fixed assets are restated to current value each year.

Land and buildings are restated to current value using professional valuations every five years and in the intervening years by the use of published indices appropriate to the type of land or building. Other operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable.

Published indices appropriate to the category of asset are normally used to estimate value. Residual interest in off-balance sheet PFI properties are included in tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual to the balance sheet date plus an adjustment based on the net present value of the change in the fair value of the residual as estimated at the start of the contract and its estimated fair value at the balance sheet date. The Revaluation Reserve does not include any values where fixed assets suffer from permanent downward indexation as this is charged to the Operating Cost Statement as impairment.

#### 1.4 Intangible assets – software licences

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

#### 1.5 Depreciation

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

Buildings	up to 60 years or life of lease
Plant and equipment	2 – 15 years
Computers	2 – 5 years
Software	3 – 5 years
Vehicles	5 – 7 years
Furniture and fittings	3 – 10 years

The asset lives stated above vary according to the policy adopted in the respective Agencies or the core Department.

#### 1.6 Donated assets

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

#### 1.7 Investments

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

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

Stocks for resale and work in progress are valued at the lower of current replacement cost and net realisable value. Consumable stocks are valued at current replacement cost which is not materially different from historical cost.

#### 1.9 Third party assets

HM Prison Service holds monies on behalf of prisoners. These are excluded from the cash and bank balances.



### 1.10 Research and development costs

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

### 1.11 Operating income

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

- i) the income for HM Prison Service in respect of charges (excluding VAT) for goods and services provided to external customers. It also includes receipts from the Youth Justice Board for the provision of places for juvenile offenders, from the Immigration and Nationality Directorate for the provision of custodial services, from the Department for Education and Skills for the provision of education services and from the Department of Health, Primary Care Trusts and Welsh Assembly Government for the provision of healthcare services;
- ii) the turnover for the Identity and Passport Service from their continuing activities, representing the sale value of all services provided during the year. All income is recognised when the passport is issued. Income from free passports issued for all British Nationals born on or before 2 September 1929 introduced on 18 October 2004 is centrally funded by the Home Office, when a passport is issued. Income from this initiative is shown under turnover and the cash settlement for the service provided is deducted from the amounts paid to the Home Office;
- iii) the turnover of the Criminal Records Bureau from their continuing activities, representing the sale value of all services provided during the year. Turnover represents:
  - fees charged to applicants for applications for enhanced and standard disclosure of prescribed criminal record information; and
  - fees charged to register corporate bodies and signatories to access the criminal record process.

CRB recognises income on the receipt of a counter-signed application. Monies received for Disclosure notices that are not expected to be returned are included in Other Creditors; and

- iv) the income for the 42 Probation Boards comprises of rent receivables, income from EU sources, income from other government departments and miscellaneous income. Fees and charges for services are recovered on a full cost basis in accordance with HM Treasury's Fees and Charges guide. The 42 Probation Boards can earn interest from various sources but under the Criminal Justice and Court Services Act 2000, it is not allowed to retain any interest received from the investment of funds received from the National Probation Service. This interest is surrendered to HM Treasury who treat this as Consolidated Funds Extra Receipts (CFERs).

### 1.12 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Department. These include both the administration costs and associated operating income. Income is analysed in the notes between that which, under the administration cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

For the Resource Accounts ending 31 March 2006 onwards, the classification of expenditure and income as administration or programme was changed by HM Treasury. This has resulted in the transfer of the majority of income and expenditure relating to front-line services from administration to programme. The classification in the accounts is consistent with the new classification set by HM Treasury.

### **1.13 Capital charge**

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

### **1.14 Foreign exchange**

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

### **1.15 Pensions**

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

The PCSPS is an unfunded multi-employer defined benefit scheme but the Home Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resources accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensions.gov.uk](http://www.civilservicepensions.gov.uk)).

For 2006-07, employers' contributions were payable to the PCSPS at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Past and present employees of the local probation boards are covered by the provisions of the Local Government Pension Scheme (LGPS). This is a funded defined benefit scheme meaning that retirement benefits are determined independently of the investments of the scheme and employers are obliged to make additional contributions where assets are insufficient to meet retirement benefits. Under the LGPS Regulations the pension fund is subject to an independent triennial actuarial valuation to determine each employer's contribution rate. Disclosure of Stakeholder Pensions Schemes is not included in these accounts.

### **1.16 Early departure costs**

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

### 1.17 Leases

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

### 1.18 Home Office grants

Grants (excluding Grants-in-Aid) are usually accounted for on an accruals basis and are paid as a reimbursement against expenditure that the grant recipient has already made. Grant-in-Aid is a funding mechanism to finance all or part of the costs of the body receiving the Grant-in-Aid.

The Home Office provides funding to Local Authorities to support activities delivered locally to help deliver Home Office aims and objectives. Some of that funding takes the form of specific grants, which are provided directly by the Department to Local Authorities to spend on specific activities, within prescribed terms and conditions. The remaining funding is provided through the Local Area Agreement (LAA) mechanism, which provides the Local Authorities with a greater degree of discretion over the precise nature of the activities funded. The Home Office, and other contributing departments, channel their LAA funding through a centrally pooled funding stream, which is managed within the Department for Communities & Local Government (DCLG). DCLG is responsible for making the grant payments from the central LAA pool to the various Local Authorities, who are the Accountable Bodies in respect of LAAs. The roles and responsibilities of the contributing departments and DCLG are defined in a *“Memorandum of Understanding between Departmental Accounting Officers”*. In 2006-07, those Local Authorities that did not have an LAA also received Home Office funding through DCLG’s centrally pooled freestanding Safer & Stronger Communities Fund (SSCF) arrangements; similar roles and responsibilities were agreed between the two departments.

### 1.19 PFI transactions

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

#### **Off Balance Sheet Transactions**

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

#### **On Balance Sheet Contracts**

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

### 1.20 Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 2.2%).

### 1.21 Contingent liabilities

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

- i) items over £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; and
- ii) 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 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

### **1.22 Value added tax**

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

### **1.23 Machinery of Government Changes**

Machinery of government changes which involve the transfer of functions or responsibilities between two or more government departments are accounted for in accordance using merger accounting in accordance with Financial Reporting Standard (FRS 6). The prior year comparatives have been restated to reflect these machinery of government changes. By doing so it appears that the entity always existed in its present form. This enables the user of the accounts to make useful comparisons between the data from the prior year to the current year.

### **1.24 Prior Year Adjustment**

The Home Office's 2005-06 Resource Accounts received a limitation of scope qualification in respect of its accruals balance (liabilities to pay suppliers where no invoice has yet been received). The qualification arose as initial testing performed by the National Audit Office (NAO) identified evidence that the balance was overstated; however sufficient assurance could not be gained to conclude upon the level of error.

Subsequent testing of this balance performed by the Home Office (and audited by the NAO) has led to the assessment that accruals were overstated by £105.3m, a material amount in the Home Office Accounts. It was concluded that the error was fundamental to the truth and fairness of the Department's Accounts and should therefore be corrected by means of a prior period adjustment.

The adjustment has necessitated the correction of the brought forward General Fund and restatement of the prior period accruals balance, Operating Cost Statement, staff cost, administration and programme cost notes.

### **1.25 Preparation of the Statement of Operating Costs by Departmental Aim and Objectives & Note 25**

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

Each area is specifically allocated to a single Home Office objective which has been specified at the corporate level. The expenditure undertaken by each area is recorded separately in the Home Office accounting system. The spend on central services has been allocated on a proportional basis reflecting the overall spend by the Department on each of the objectives.

In relation to the capital employed by objective (Note 25b) the allocations are based on the proportion of the 2005-06 capital employed.

## 2. Analysis of net resource outturn by section

	Outturn					2006-07 £000	2005-06* £000		
	Admin	Other Current	Grants	Gross resource expendi- ture	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior-year outturn
<b>Request for Resources 1: Building a safe, just and tolerant society</b>									
SPENDING IN DEPARTMENTAL EXPENDITURE (DEL):									
Central Government Spending									
A – Police	26,792	56,285	526,349	609,426	(9,770)	599,656	35,683	(563,973)	624,753
B – Crime reduction	22,141	19,182	103,607	144,930	(110)	144,820	15,607	(129,213)	208,586
C – Criminal Records Bureau	79,549	–	–	79,549	(93,167)	(13,618)	(3,180)	10,438	2,249
D – Organised and international crime	16,705	95,673	459,565	571,943	(4,931)	567,012	314,218	(252,794)	239,813
E – Drugs	13,119	7,029	247,920	268,068	(46,075)	221,993	14,089	(207,904)	184,439
F – Criminal justice	15,291	78,385	39,597	133,273	(22,111)	111,162	116,664	5,502	90,814
G – Communities group	–	–	–	–	–	–	–	–	150,549
H – Futurebuilders	–	–	–	–	–	–	–	–	39,612
I – Corrections HQ (NOMS)	58,112	818,394	21,572	898,078	(60,875)	837,203	901,310	64,107	897,912
J – Prisons – private sector	(11,359)	275,097	–	263,738	(24,576)	239,162	242,030	2,868	242,553
K – Prisons – public sector	74,962	2,160,348	–	2,235,310	(298,968)	1,936,342	1,931,243	(5,099)	1,797,573
L – Probation HQ	4,233	43,605	1,755	49,593	–	49,593	51,406	1,813	(86,190)
M – Immigration and nationality	127,421	1,528,231	19,239	1,674,891	(219,345)	1,455,546	1,306,621	(148,925)	1,515,028
N – ID Cards & Passport Service	307,206	32,271	–	339,477	(306,449)	33,028	32,400	(628)	91,463
O – Central services	198,740	27,674	56,590	283,004	(19,543)	263,461	262,337	(1,124)	202,912
P – European Refugee Fund	–	–	(1,015)	(1,015)	–	(1,015)	1	1,016	7,369
Support for Local Authorities									
Q – Police grants	–	–	4,548,881	4,548,881	–	4,548,881	5,545,704	996,823	4,901,828
R – Crime Reduction grants	–	–	35,183	35,183	–	35,183	207,733	172,550	54,704
S – Organised & Int crime grants	–	–	96,427	96,427	–	96,427	214,567	118,140	59,342
T – Immigration & Nationality grants	–	–	–	–	–	–	167,259	167,259	–
SPENDING IN ANNUALLY MANAGED EXPENDITURE:									
Central Government Spending:									
U – Police superannuation	–	–	–	–	–	–	270	270	4,100
Non-budget									
V – Police Information Technology Organisation	–	–	348,548	348,548	–	348,548	389,237	40,689	280,000
W – Central Police Training and Development Agency	–	–	82,500	82,500	–	82,500	83,881	1,381	97,700
X – Independent Police Complaints Commission	–	–	30,600	30,600	–	30,600	28,530	(2,070)	29,750
Y – Serious Organised Crime Agency	–	–	423,354	423,354	–	423,354	397,658	(25,696)	–
Z – Security Industry Authority	–	–	(2,985)	(2,985)	–	(2,985)	1	2,986	1,579
AA – Parole Board	–	–	6,281	6,281	–	6,281	6,470	189	6,400
AB – National Probation Service (local area boards)	–	–	848,547	848,547	–	848,547	852,685	4,138	778,468
AC – Youth Justice Board	–	–	409,513	409,513	–	409,513	454,663	45,150	447,425
AD – Criminal Injuries Compensation Authority	–	–	245,750	245,750	–	245,750	254,114	8,364	193,510
AE – Criminal Cases Review Commission	–	–	6,744	6,744	–	6,744	6,715	(29)	6,835
AF – Community Development Foundation	–	–	–	–	–	–	–	–	1,458
AG – Commission for Racial Equality	–	–	–	–	–	–	–	–	34,450
AH – Office of the Immigration Service Commissioner	–	–	4,313	4,313	–	4,313	3,689	(624)	4,305
AI – Capacity Builders Agency	–	–	–	–	–	–	–	–	–
AJ – Loan charges	–	–	10,076	10,076	–	10,076	12,760	2,684	13,282
Fine refund to carriers	–	18	–	18	–	18	–	(18)	288
National Criminal Intelligence Service	–	–	–	–	–	–	–	–	85,508
National Crime Squad	–	–	–	–	–	–	–	–	199,425
SPENDING IN ANNUALLY MANAGED EXPENDITURE:									
Support for Local Authorities									
AK – Police Superannuation	–	–	290,750	290,750	–	290,750	290,000	(750)	–
Spending in Departmental Expenditure (DEL)									
Support for Local Authorities									
AL – Local Area Agreements	–	–	58,538	58,538	–	58,538	59,727	1,189	–
AM – Criminal Justice grants	–	–	508	508	–	508	4,955	4,447	1,062
AN – Other grants	–	–	(1)	(1)	–	(1)	–	1	156
<b>Resource Outturn</b>	<b>932,912</b>	<b>5,142,192</b>	<b>8,918,706</b>	<b>14,993,810</b>	<b>(1,105,920)</b>	<b>13,887,890</b>	<b>14,201,047</b>	<b>313,157</b>	<b>13,411,010</b>

This analysis is required for control purposes and to obtain parliamentary approval.

Explanations of variation between Estimate and Outturn are given in the Annual Report pages 15 to 19

\*The 2005-06 figures have not been restated as these numbers were previously reported to Parliament.

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

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

	Note	Outturn £000	Supply Estimate £000	2006-07 Outturn compared with Estimate £000	Restated 2005-06 Outturn £000
Net Resource Outturn	2	13,887,890	14,201,047	313,157	13,411,010
Prior Period Adjustments	37.1	105,319	–	(105,319)	(93,289)
Non-Supply income (CFERs)	12	(199,139)	(183,964)	15,175	(281,833)
Non-Supply Expenditure		(39,388)	(32,694)	6,694	(8,232)
Machinery of Government transfers	37.2	–	–	–	(115,885)
<b>Net Operating Cost</b>		<b>13,754,682</b>	<b>13,984,389</b>	<b>229,707</b>	<b>12,911,771</b>

The 2005-06 net resource outturn has not been restated as this figure had been previously reported to Parliament. The overall 2005-06 outturn column has been restated in relation to the prior year adjustment of £105,319k and the machinery of government transfer of £115,885k in order to reconcile to the restated net operating cost.

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

	Budget £000	2006-07 Outturn £000	2005-06 Outturn* £000
Gross Administration Budget	1,117,681	932,912	1,077,023
Income allowable against the Administration Budget	(507,384)	(468,171)	(519,431)
Income not allowable against the Administration Budget	–	45,072	–
<b>Net outturn against the Final Administration Budget</b>	<b>610,297</b>	<b>509,813</b>	<b>557,592</b>

\*The 2005-06 outturn figures have not been restated as these numbers were previously reported to Parliament.

## 4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/ (excess) £000
Resource Outturn	2	14,201,047	13,887,890	313,157
Capital				
Acquisition of fixed assets		661,136	536,618	124,518
Investments		–	3,580	(3,580)
Non operating A in A				
Proceeds of fixed asset disposals		(17,286)	(17,286)	–
Accruals adjustments				
Non-cash items		(493,087)	(544,790)	51,703
Changes in working capital other than cash		14,178	82,163	(67,985)
Use of Provision	21	31,909	66,279	(34,370)
Machinery of Government transfers		–	114,940	(114,940)
Adjustment due to 2005-06 Supply		–	4,464	(4,464)
<b>Net cash requirement</b>		<b>14,397,897</b>	<b>14,133,858</b>	<b>264,039</b>

The National Probation Service is reported on a cash basis within the Statement of Parliamentary Supply and on an accruals basis within the Operating Cost Statement. No adjustments made between the Resource Outturn and Net Cash Requirement above relate to the National Probation Service. As a result the figures shown within Note 4 will differ from those shown within the Cashflow Statement.

## 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 2006-07 £000		Outturn 2006-07 £000	
		Income	Receipts	Income	Receipts
Operating income and receipts – excess A in A		–	–	–	–
Other operating income and receipts not classified as A in A	12	121,256	<i>121,256</i>	154,067	<i>128,314</i>
Excess Receipts payable to the Consolidated Fund		–	–	–	–
		121,256	<i>121,256</i>	154,067	<i>128,314</i>
Non-operating income and receipts – excess A in A		–	–	20,535	<i>20,535</i>
Other non operating income and receipts not classified as A in A	8	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund	12	62,708	<i>62,708</i>	45,072	<i>45,072</i>
<b>Total income payable to the Consolidated Fund</b>		<b>183,964</b>	<b><i>183,964</i></b>	<b>219,674</b>	<b><i>193,921</i></b>

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

		2006-07	2005-06
	Note	£000	£000
Operating income	12	1,357,217	1,247,375
Income authorised to be appropriated in aid	2	(1,105,920)	(908,455)
Non Supply adjustments*	9,12	(52,158)	(57,331)
Reconciliation to unrestated parliamentary schedule		–	244
<b>Operating income payable to the Consolidated Fund</b>		<b>199,139</b>	<b>281,833</b>

\*Non supply adjustments relate to NPS and EU income. For the purposes of Note 12 this income is shown as Appropriations in Aid.

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

		2006-07	2005-06
	Note	£000	£000
Proceeds on disposal of fixed assets	5	20,535	70,698
Other (analysed as appropriate)		–	–
Non operating income – excess A in A		20,535	70,698

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

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

## 9. Staff Numbers and related costs

Staff costs comprise:

						Consolidated			Restated 2005-06
	Permanently employed staff		Others	Ministers	Special advisers	Permanently employed staff		Others	Total
	Total	£000	£000	£000	£000	Total	£000	£000	£000
Wages and salaries	635,589	576,160	58,865	392	172	2,563,363	2,397,649	165,714	2,386,142
Social security costs	44,218	43,320	846	34	18	182,172	180,776	1,396	168,906
Other pension costs	106,921	106,614	271	–	36	421,312	419,844	1,468	369,585
<b>Sub Total</b>	<b>786,728</b>	<b>726,094</b>	<b>59,982</b>	<b>426</b>	<b>226</b>	<b>3,166,847</b>	<b>2,998,269</b>	<b>168,578</b>	<b>2,924,633</b>
Less recoveries in respect of outward secondments	(3,577)	(3,577)	–	–	–	(51,788)	(51,761)	(27)	(46,682)
<b>Total Net Costs*</b>	<b>783,151</b>	<b>722,517</b>	<b>59,982</b>	<b>426</b>	<b>226</b>	<b>3,115,059</b>	<b>2,946,508</b>	<b>168,551</b>	<b>2,877,951</b>
*Of which:									
Charged to Admin Costs						380,039			401,383
Charged to Programme Costs						2,735,020			2,476,568
						3,115,059			2,877,951
Core Department									
Charged to Admin Costs						227,603			253,894
Charged to Programme Costs						555,548			470,849
						<b>783,151</b>			<b>724,743</b>

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



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

For 2006-07, employers' contributions of £341m were payable to the PCSPS (£320m in 2005-06) at one of four rates in the range 17.1% to 25.5% of pensionable pay (16.2% to 24.6% in 2005-06), based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £263,858 (£215,451 in 2005-06) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £12,857 (£35,849 in 2005-06), 0.8% 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 no contributions due to the partnership pension providers at the balance sheet date.

13 persons (7 persons in 2005-06) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £23,756 (£647,317 in 2005-06).

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

### Number of persons employed

The 2006-07 staff in post numbers figures for the Core Home Office excluding Executive Agencies are based on the year end position and not the average staff in post. Agency and temporary staff are excluded from the 2005-06 figures.

Objective	2006-07				Restated 2005-06	
	Total	Permanently employed staff	Others	Ministers	Special advisers	Total
1	1,601	1,463	136	1	1	1,059
2	71,333	69,850	1,480	2	1	69,836
3	149	143	3	2	1	215
4	24,751	21,752	2,996	2	1	20,664
	<u>97,834</u>	<u>93,208</u>	<u>4,615</u>	<u>7</u>	<u>4</u>	<u>91,774</u>
Of which:						
<b>Core Department</b>	<u><b>24,580</b></u>	<u><b>21,881</b></u>	<u><b>2,688</b></u>	<u><b>7</b></u>	<u><b>4</b></u>	<u><b>20,443</b></u>

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

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

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

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

### Pension costs of the National Probation Service

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

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

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

The Local Government Pension Scheme provides benefits on a 'final salary' basis at a normal retirement age of 65. Benefits accrue at the rate of one-eightieth of pensionable salary for each year of service. In addition, a lump sum equivalent to three eightieths of final pay of every year of total membership is payable on retirement. Changes in the scheme permit employees returning on or after 6th April to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

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

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

A full actuarial valuation was carried out at 31 March 2004 by various actuaries. For 2006-07, employers' contributions of £84,708k were payable to the LGPS (£78,766k in 2005-06) in a range from 12.8% to 26.3%. The scheme's actuaries review employer contributions every three years following a full scheme valuation. The salary bands were revised for 2005-06 and will remain unchanged until 2007-08. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Partnership accounts are excluded under FRS17.

The approximate employers' pension contributions for the three years from:

Employers' contributions for 2006-07 were 17.8 per cent of salaries;

Employers' contributions for 2007-08 will be 17.8 per cent of salaries; and,

The next actuarial valuation will be carried out on 31 March 2007 and contributions for 2008-09 will be assessed at that point.

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

	<b>31 March 2007</b>	<b>31 March 2006</b>	<b>31 March 2005</b>
Inflation assumption	3.2%	2.9%	2.9%
Rate of increase in salaries	4.7%	4.5%	4.5%
Rate of increase for pensions in payment and deferred pensions	3.2%	2.9%	2.9%
Discount rate	5.4%	5.8%	6.4%

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

	Long-term rate of return expected at 31 March 2007	Value at 31 March 2007	Long-term rate of return expected at 31 March 2006	Value at 31 March 2006	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005
	%	£000	%	£000	%	£000
Equities	7.6%	1,358,140	7.2%	1,241,565	7.6%	1,004,521
Bonds	4.9%	322,531	4.5%	287,959	4.8%	222,561
Property	6.3%	186,461	5.9%	152,999	6.2%	114,603
Cash	5.2%	92,115	4.6%	94,013	4.8%	66,496
<b>Total market value of assets</b>		1,959,247		1,776,536		1,408,181
<b>Present value of scheme liabilities</b>		2,494,112		2,033,143		1,705,688
<b>Surplus/(Shortfall) of the scheme</b>		(534,865)		(256,607)		(297,507)
<b>Net pension asset/(liability)</b>		<b>(534,865)</b>		<b>(256,607)</b>		<b>(297,507)</b>

#### Pension Cost

	2006-07	2005-06
	£000	£000
Current service cost	72,414	65,859
Past service cost	609	(14,735)
<b>Total operating charge</b>	<b>73,023</b>	<b>51,124</b>

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

	2006-07	2005-06
	£000	£000
Expected return on pension scheme assets	117,296	97,633
Interest on pension scheme liabilities	(119,891)	(111,162)
<b>Net return</b>	<b>(2,595)</b>	<b>(13,529)</b>

#### Analysis of amount recognised in Statement of Recognised Gains and Losses (SRGL)

	2006-07	2005-06
	£000	£000
Actual return less expected return on pension scheme assets	9,859	246,053
Experience gains and losses arising on the scheme liabilities	(732)	(15,853)
Changes in assumptions underlying the present value of the scheme liabilities	(296,475)	(203,413)
<b>Actuarial gain/(loss) recognised in the SRGL</b>	<b>(287,348)</b>	<b>26,787</b>

#### Movement in Surplus/(Shortfall) during the year:

	2006-07	2005-06
	£000	£000
Surplus/(Shortfall) in scheme at the beginning of the year	(256,607)	(297,507)
Current service costs	(72,414)	(65,859)
Employer Contributions	84,708	78,766
Past service costs	(609)	14,735
Other finance income	(2,595)	(13,529)
Actuarial gain/(loss)	(287,348)	26,787
<b>Surplus/(Shortfall) in scheme at the end of the year</b>	<b>(534,865)</b>	<b>(256,607)</b>

## History of experience gains and losses

## Difference between the expected and actual return on scheme assets:

	2006-07	2005-06	2004-05	2003-04
Amount in £000	9,859	246,053	54,137	132,366
Percentage of scheme assets	0.5%	13.9%	3.8%	10.8%

## Experience gains and losses on scheme liabilities:

Amount in £000	(732)	(15,853)	23,586	(3,912)
Percentage of the present value of the scheme liabilities	0.0%	(0.8%)	1.4%	(0.2%)

## Total amount recognised in Statement of Recognised Gains and Losses:

Amount in £000	(287,348)	26,787	74,375	124,779
Percentage of the present value of the scheme liabilities	(11.5%)	1.3%	4.4%	7.9%

## 10. Other Administration Costs

	Note	2006-07		Restated 2005-06	
		Core Department £000	Consolidated £000	Core Department £000	Consolidated £000
Rentals under operating leases		9,721	9,890	6,796	11,020
Interest charges		–	431	–	–
PFI service charges		31,770	77,566	37,967	80,497
Non-cash items					
Depreciation		(9,843)	6,996	62,304	72,160
Amortisation		455	527	2,370	2,441
Impairment		44,418	51,103	14,196	15,500
(Profit)/Loss on disposal of assets		(7,289)	(6,830)	(26,248)	(26,711)
Cost of Capital charges		(34,302)	(32,217)	17,337	19,844
Notional Charges		–	803	–	2,064
Auditor's remuneration and expenses		625	1,126	557	1,113
Provision provided for in year	21	40,589	41,293	66,391	68,652
Other					
Publication Stationery & Printing		6,309	8,619	15,239	39,931
Facilities Management & Services		47,950	145,409	82,804	144,152
Accommodation & Maintenance		19,062	40,701	96,839	113,686
Travel, Subsistence & Hospitality		15,221	26,142	16,333	19,995
Professional Fees		48,167	48,860	8,857	8,857
Media & IT		14,364	36,761	7,884	25,203
Other Administration Expenditure		16,375	95,693	10,151	80,711
<b>Total</b>		<b>243,592</b>	<b>552,873</b>	<b>419,777</b>	<b>679,115</b>

## 11. Programme Costs

	Note	2006-07		Restated 2005-06	
		Core Department	Consolidated	Core Department	Consolidated
		£000	£000	£000	£000
Rentals under operating leases		53,190	57,753	167,657	178,322
Interest Charges		-	3	-	1
Finance Charges – Pension costs		-	2,595	-	13,529
PFI service charges		543,630	544,148	356,253	356,811
Non-cash items					
Depreciation		229,715	242,745	158,295	167,492
Amortisation		-	-	-	-
Impairment		24,987	24,991	-	135
(Profit)/Loss on disposal of fixed assets		(4,543)	(3,943)	(4,259)	(3,254)
Cost of Capital charges		229,313	224,043	178,418	170,408
Notional Charges		-	3,864	-	4,015
Auditor's Remuneration & Expenses		-	69	-	69
Provision provided for in year	21	-	20,245	-	8,801
Other					
Grants – Current		8,440,776	7,592,674	8,031,854	7,253,386
Grants – Capital		261,742	261,742	309,219	309,219
Grants – EU		4,929	4,929	-	-
Auditor's Remuneration & Expenses		-	1,383	-	1,280
Publication Stationery & Printing		7,450	7,450	41,084	41,084
Facilities Management & Services		148,336	474,466	150,586	356,962
Accommodation & Maintenance		331,108	471,968	317,396	580,798
Travel, Subsistence & Hospitality		55,998	77,588	37,549	55,112
Professional Fees		137,861	137,861	31,823	31,823
Media & IT		63,536	63,536	43,126	43,126
Other Programme Costs		891,945	1,233,857	747,759	1,032,961
<b>Total</b>		<b>11,419,973</b>	<b>11,443,967</b>	<b>10,566,760</b>	<b>10,602,080</b>

## 12. Income

	2006-07		Restated 2005-06	
	Core Total	Consolidated Total	Core Total	Consolidated Total
	£000	£000	£000	£000
Appropriated in Aid				
Passport Fees	-	300,534	-	116,000
Non Cash notional income	7,162	7,462	-	11,293
Other Admin Income	16,648	158,063	73,745	162,519
Programme Income	379,950	685,681	245,046	675,730
EU Income	5,945	6,338	-	-
Total Appropriated in Aid	409,705	1,158,078	318,791	965,542
Payable to Consolidated Fund				
Passport Fees	-	45,072	-	46,463
Excess receipts	-	-	153,190	153,190
Other Administration Income	3,611	5,755	74,987	75,088
Other Programme Income	148,312	148,312	5,082	7,092
Other CFER Receipts	-	-	-	-
EU Income	-	-	-	-
Total payable to Consolidated Fund	151,923	199,139	233,259	281,833
<b>Total</b>	<b>561,628</b>	<b>1,357,217</b>	<b>552,050</b>	<b>1,247,375</b>
Of which				
Administration income	20,259	468,171	148,732	519,187
Programme Income	541,369	889,046	403,318	728,188
	<b>561,628</b>	<b>1,357,217</b>	<b>552,050</b>	<b>1,247,375</b>

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

Objective	2006-07			Restated 2005-06		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
1 Bomb Search Training	39	1,280	(1,241)	132	1,127	(995)
1 Police registration certificate	–	–	–	–	–	–
1 Data Subject Access Requests	2,072	1,015	1,057	2,131	1,088	1,043
1 HMIC chargeable inspection work/ Inspection of non-HO Police Forces	1,016	1,016	–	683	683	–
1 CRB Enhanced Disclosures	85,983	72,234	13,749	67,775	71,002	(3,227)
1 CRB Standard Disclosures	5,677	6,132	(455)	7,721	6,784	937
1 CRB POVA First	1,382	1,019	363	–	–	–
1 CRB Other	125	164	(39)	368	327	41
1 Perimeter detection system	2,770	2,770	–	2,683	2,683	–
1 Gun club licences	10	10	–	16	16	–
3 Licences issued under the misuse of drugs act	318	528	(210)	631	503	128
4 Nationality Fees	26,088	26,851	(763)	26,856	28,496	(1,640)
4 Identity & Passport Service*	306,449	308,534	(2,085)	234,413	214,141	20,272
4 Immigration: Detention Costs Recovered	1,211	21,810	(20,599)	1,412	29,262	(27,850)
4 Immigration: Certificates Right of Abode	63	193	(130)	89	500	(411)
4 Immigration: Additional Services	655	2,068	(1,413)	435	1,318	(883)
4 Travel documents refugee passports	451	4,114	(3,663)	613	5,084	(4,471)
4 Travel documents Certs of Identity	1,176	741	435	1,209	901	308
4 Work Permits	53,534	43,216	10,318	45,532	38,526	7,006
4 Accommodation provided for non Home Office Bodies	9,561	9,561	–	3,420	3,420	–
4 Leave to Remain General Postal	63,249	75,856	(12,607)	128,795	97,420	31,375
4 Leave to Remain General Premium	35,965	19,353	16,612	–	–	–
4 Leave to Remain Work Permit Postal	22,976	13,590	9,386	–	–	–
4 Leave to Remain Work Permit Premium	7,237	1,958	5,279	–	–	–
4 Certificate of Approval	2,042	3,170	(1,128)	1,781	4,214	(2,433)
4 Animals (Scientific Procedures), Licences	3,734	3,550	184	3,524	3,445	79
	<b>633,783</b>	<b>620,733</b>	<b>13,050</b>	<b>530,219</b>	<b>510,940</b>	<b>19,279</b>

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

\*The 2005-06 fees and charges for the Identity and Passport Service have been restated in line with their 2006-07 accounts. The fees and charges balances for the Identity and Passport Service excludes the non retainable element of the passport fee for consular protection (£46m in 2005-06 and £45m in 2006-07, which is surrendered to HM Treasury). This is to ensure that the correct (deficit)/surplus is disclosed within the Home Office Resource Accounts. See 2006-07 Identity and Passport Service accounts.

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

	<u>Estimate</u>	<u>2006-07 Total</u>	<u>Restated 2005-06 Total</u>
	£000	£000	£000
<b>Spending body:</b>			
Core Department	3,138,710	4,161,332	4,239,226
HM Prison Service	1,931,243	1,936,284	1,797,472
Identity & Passport Service	(30,308)	(12,044)	(39,013)
Criminal Records Bureau	(3,180)	(13,618)	2,249
Non-Departmental Public Bodies	1,624,958	1,554,618	1,108,345
Other Central Government	270	-	4,100
Local Authorities	6,489,945	5,321,036	5,029,156
Other Bodies (NPS)	832,751	807,074	770,236
<b>Net Operating Cost</b>	<b><u>13,984,389</u></b>	<b><u>13,754,682</u></b>	<b><u>12,911,771</u></b>

## 14. Tangible fixed assets

	Land & Building excluding Dwellings	Vehicles	Information Technology	Plant & Equipment	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>							
At 1 April 2006*	6,934,266	13,116	161,280	197,484	40,815	373,492	7,720,453
Additions	35,462	4,323	53,723	11,815	4,265	452,602	562,190
Disposals	(24,884)	(712)	(440)	(8,375)	(815)	(258)	(35,484)
Transfers	197,050	41,413	33,869	3,553	805	(277,047)	(357)
Revaluations	552,332	1,479	(27,519)	(2,619)	(2,446)	703	521,930
<b>At 31 March 2007</b>	<b>7,694,226</b>	<b>59,619</b>	<b>220,913</b>	<b>201,858</b>	<b>42,624</b>	<b>549,492</b>	<b>8,768,732</b>
<b>Depreciation</b>							
At 1 April 2006	(662,090)	(7,270)	(61,979)	(81,217)	(19,796)	–	(832,352)
Charged in year	(170,339)	(7,646)	(47,770)	(15,833)	(6,126)	–	(247,714)
Disposals	170	621	354	7,697	751	–	9,593
Transfers	(189)	(2,830)	2,569	–	–	–	(450)
Revaluations	(221,828)	(121)	2,675	(301)	(191)	–	(219,766)
<b>At 31 March 2007</b>	<b>(1,054,276)</b>	<b>(17,246)</b>	<b>(104,151)</b>	<b>(89,654)</b>	<b>(25,362)</b>	<b>–</b>	<b>(1,290,689)</b>
<b>Net book value at 31 March 2007</b>	<b>6,639,950</b>	<b>42,373</b>	<b>116,762</b>	<b>112,204</b>	<b>17,262</b>	<b>549,492</b>	<b>7,478,043</b>
<b>Net book value at 31 March 2006</b>	<b>6,272,176</b>	<b>5,846</b>	<b>99,301</b>	<b>116,267</b>	<b>21,019</b>	<b>373,492</b>	<b>6,888,101</b>
Asset financing:							
Owned	6,137,750	42,373	116,762	112,204	17,262	549,492	6,975,843
On-balance sheet PFI	502,200	–	–	–	–	–	502,200
<b>Net book value at 31 March 2007</b>	<b>6,639,950</b>	<b>42,373</b>	<b>116,762</b>	<b>112,204</b>	<b>17,262</b>	<b>549,492</b>	<b>7,478,043</b>
<b>Analysis of tangible fixed assets</b>							
<b>The net book value of tangible fixed assets comprises:</b>							
<b>Core Department 2007</b>	6,607,353	1,096	90,745	12,212	9,905	513,534	7,234,845
<b>Agencies 2007</b>	32,597	41,277	26,017	99,992	7,357	35,958	243,198
<b>Total</b>	<b>6,639,950</b>	<b>42,373</b>	<b>116,762</b>	<b>112,204</b>	<b>17,262</b>	<b>549,492</b>	<b>7,478,043</b>
<b>Core Department 2006</b>	6,248,727	1,648	79,198	19,100	15,367	318,714	6,682,754
<b>Agencies 2006</b>	23,449	4,198	20,103	97,167	5,652	54,778	205,347
<b>Total</b>	<b>6,272,176</b>	<b>5,846</b>	<b>99,301</b>	<b>116,267</b>	<b>21,019</b>	<b>373,492</b>	<b>6,888,101</b>

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

\*Adjustments have been made to the core Home Office's Land & Building opening balances to reflect the valuation exercise undertaken by the chartered surveyors Donaldsons as at 31 March 2006. This valuation was undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual.

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

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

The opening balances of tangible fixed assets in Note 14 have been restated to reflect revised categorisation of assets for the Identity and Passport Services figures consolidated. There is no overall change to the total net book value recorded from this reclassification. This change has resulted in a reduction in the opening net book value of Plant and Machinery by £18,851k and an increase of Information Technology and Fixtures and Fittings opening net book by £15,723k and £3,128k respectively.



**15. Intangible fixed assets**

	<b>Total</b>
	<u>£000</u>
<b>Cost or valuation</b>	
At 1 April 2006	10,770
Additions	1,444
Donations	–
Disposals	–
Revaluations	(425)
<b>At 31 March 2007</b>	<b><u>11,789</u></b>
<b>Amortisation</b>	
At 1 April 2006	(6,609)
Charged in year	(2,559)
Disposals	–
Revaluations	31
<b>At 31 March 2007</b>	<b><u>(9,137)</u></b>
<b>Net book value at 31 March 2007</b>	<b><u>2,652</u></b>
<b>Analysis of intangible fixed assets</b>	
<b>The net book value of intangible fixed assets comprises:</b>	
<b>Core Department 2007</b>	2,530
<b>Agencies 2007</b>	122
<b>Total</b>	<b><u>2,652</u></b>
<b>Core Department 2006</b>	3,982
<b>Agencies 2006</b>	179
<b>Total</b>	<b><u>4,161</u></b>

## 16. Investments

	Forensic Science Service (GovCo)			Total
	Share Capital	Loan Stock	Other Investments	
	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 April 2006	48,000	12,000	339	60,339
Additions	-	3,580	-	3,580
Repayments	-	(1,193)	(81)	(1,274)
Transfers	-	-	(16)	(16)
Revaluations	-	6,067	61	6,128
<b>At 31 March 2007</b>	<b>48,000</b>	<b>20,454</b>	<b>303</b>	<b>68,757</b>

Other investments comprise a number of quoted and unquoted investments held by the HM Prison Service. These were acquired as a result of trading activities at no cost. The quoted investments are stated at market value at 31 March 2007. The unquoted investments relate mainly to the value of milk quota and are valued at estimated realisable value at 31 March 2007.

	Milk Marque Share Capital	Loan Stock 2,027 Share Capital	Loan Stock Dairy Farmers of Britain	Various Share Capital	Genus Share Capital	Value of Milk Quota	Dairy Crest Share Capital	Total other Investment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>								
At 1 April 2006	20	2	-	-	1	131	185	339
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(81)	-	(81)
Transfers	(20)	(2)	2	4	-	-	-	(16)
Revaluations	-	-	-	-	-	(13)	74	61
<b>At 31 March 2007</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>4</b>	<b>1</b>	<b>37</b>	<b>259</b>	<b>303</b>

The Forensic Science Service Ltd have prepared accounts for the period 4 December 2005 to 31 March 2007.

	31 March 2007 Forensic Science Service £000
Net assets	51,670
Turnover	210,449
(Profit)/Loss for the period (before financing)	(905)

An extract from the FSS accounts is shown above. Due to the immaterial nature of the other investments held no further detail is provided.

## 17. Stocks and work in progress

	2006-07		2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Stocks	1,395	32,996	104	38,694
Work in Progress	–	3,970	–	2,922
	<b>1,395</b>	<b>36,966</b>	<b>104</b>	<b>41,616</b>

## 18. Debtors

## 18(a) Analysis by type

	2006-07		Restated 2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
Trade debtors and provision for bad and doubtful debts	90,308	118,479	51,151	78,794
VAT debtors net of Creditors	46,552	49,801	47,272	51,430
Staff Debtors	10,800	12,366	4,970	7,193
Debtors – Government Departments	17,691	45,712	23,755	54,364
Other debtors, prepayments & accrued income	176,756	233,072	107,962	126,766
Amounts due from the Consolidated Fund in respect of Supply	–	–	299,539	299,539
	<b>342,107</b>	<b>459,430</b>	<b>534,649</b>	<b>618,086</b>

	2006-07		Restated 2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due after more than one year:</b>				
Trade debtors	–	–	–	–
Staff debtors	10	4,248	–	4,908
	<b>10</b>	<b>4,248</b>	<b>–</b>	<b>4,908</b>

Included within trade debtors is £31.685k (£1,468k in 2005-06) that will be due to the Consolidated Fund once debts are collected.

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

	<b>2006-07</b>	<b>Amounts falling due within one year 2005-06</b>	<b>2006-07</b>	<b>Amounts falling due after more than one year 2005-06</b>
	£000	£000	£000	£000
Balances with other central government bodies	190,717	142,641	–	–
Balances with Local Authorities	33,911	15,053	–	–
Balances with NHS Trusts	14,210	10,518	–	–
Balances with public corporations and trading funds	14,592	2,978	–	–
<i>Subtotal: intra-government balances</i>	253,430	171,190	–	–
Balances with bodies external to government	206,000	446,896	4,248	4,908
<b>Total Debtors at 31 March</b>	<b>459,430</b>	<b>618,086</b>	<b>4,248</b>	<b>4,908</b>

Balances within the consolidated Home Office group (£7,261k) have been eliminated upon consolidation.

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

	<b>2006-07</b>		<b>Restated 2005-06</b>	
	<b>Core Department</b>	<b>Consolidated</b>	<b>Core Department</b>	<b>Consolidated</b>
	£000	£000	£000	£000
Balance at 1 April	34,126	100,083	26,949	48,843
Net change in cash balances	379,983	402,373	7,177	51,240
<b>Balance at 31 March</b>	<b>414,109</b>	<b>502,456</b>	<b>34,126</b>	<b>100,083</b>
<b>The following balances at 31 March were held at:</b>				
Office of HM Paymaster General	412,185	443,682	–	29,966
Commercial: banks and cash in hand	1,924	58,774	19,126	55,117
Third Party Monies	–	–	15,000	15,000
<b>Balance at 31 March*</b>	<b>414,109</b>	<b>502,456</b>	<b>34,126</b>	<b>100,083</b>

\*These balance excludes bank overdraft of £61,797k (£246,068k in 2005-06) which is disclosed under creditors – Note 20. For the reader to obtain the cash movement between this year and the prior year the bank overdraft balance will need to be included to determine the full cash movement figure.

## 20. Creditors

## 20(a) Analysis by type

	2006-07		Restated 2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
Other taxation and social security	57,609	66,790	28,725	38,384
Trade Creditors	140,430	219,576	182,917	284,358
Other creditors	113,222	123,639	106,993	105,152
Overdraft	–	61,797	246,068	246,068
Staff Creditors	–	5,932	22,986	28,204
Accruals and deferred income	698,354	824,218	567,410	665,210
Unpaid Pension Contributions	218	4,901	203	4,625
Creditors – Government Departments	27,833	45,872	48,930	37,377
PFI Contracts – Core Home Office	14,438	15,509	13,368	13,368
Amounts issued from the Consolidated Fund for supply but not spent at year end	264,039	264,039	–	–
Consolidated Fund – received	125,831	132,622	231,604	238,684
– receivable	31,685	31,685	1,468	1,468
	<b>1,473,659</b>	<b>1,796,580</b>	<b>1,450,672</b>	<b>1,662,898</b>

	2006-07		Restated 2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due after more than one year:</b>				
Other Creditors	14	3,828	–	17,483
PFI Contracts – Core Home Office	335,443	348,828	349,887	349,887
	<b>335,457</b>	<b>352,656</b>	<b>349,887</b>	<b>367,370</b>

## 20(b) Intra-Government Balances

	Amounts falling due within one year		Restated Amounts falling due after more than one year	
	2006-07	2005-06	2006-07	2005-06
	£000	£000	£000	£000
Balances with other central government bodies	477,785	227,426	–	–
Balances with Local Authorities	206,108	50,246	–	–
Balances with NHS Trusts	7,155	1,459	–	–
Balances with public corporations and trading funds	1,125	1,587	–	–
<i>Subtotal: intra-government balances</i>	692,173	280,718	–	–
<b>Balances with bodies external to government</b>	<b>1,104,407</b>	<b>1,382,180</b>	<b>352,656</b>	<b>367,370</b>
<b>Total Creditors at 31 March</b>	<b>1,796,580</b>	<b>1,662,898</b>	<b>352,656</b>	<b>367,370</b>

Balances within the consolidated Home Office group (£35,139k) have been eliminated upon consolidation.

**21. Provisions for liabilities and charges**

	Core Department			Consolidated		
	Early departure costs	Other	Total	Early departure costs	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2006	30,451	57,989	88,440	74,789	123,344	198,133
Provided in the year	2,505	74,258	76,763	5,606	104,829	110,435
Provisions not required written back	–	(36,174)	(36,174)	(52)	(48,286)	(48,338)
Provisions utilised in the year	(9,306)	(16,383)	(25,689)	(14,243)	(54,471)	(68,714)
Unwinding of Discount rate	–	–	–	–	–	–
<b>Balance at 31 March 2007</b>	<b>23,650</b>	<b>79,690</b>	<b>103,340</b>	<b>66,100</b>	<b>125,416</b>	<b>191,516</b>

**Early Departure Costs**

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

**Other Provisions**

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

A provision for dilapidations is included within the ‘Other Provision’ balance, the amount is not sufficiently material to require separate disclosure.

**22. General Fund**

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

	2006-07		Restated 2005-06	
	Core Department £000	Consolidated £000	Core Department £000	Consolidated £000
Balance at 1 April	3,687,430	3,783,300	3,559,864	3,619,835
<b>Net Parliamentary Funding</b>				
Drawn Down	12,446,694	14,397,897	11,072,130	12,905,310
Adjustment to opening CFER balance	–	–	2,077	2,077
<b>Net Financing from the Contingencies Fund</b>				
Year end adjustment				
Supply (Creditor)/Debtor – current year	(264,039)	(264,039)	299,539	299,539
<b>Net Transfer from Operating Activities</b>				
Net Operating Cost	(11,885,088)	(13,754,682)	(11,159,230)	(12,911,771)
CFERS repayable to Consolidated Fund	(172,458)	(219,674)	(303,957)	(352,531)
<b>Non Cash Charges</b>				
Cost of Capital	195,011	191,826	195,756	190,253
Auditor's remuneration	625	1,195	557	1,182
Notional Charges and Income	–	(2,714)	–	(5,035)
Transfer from Revaluation Reserve	10,692	11,812	7,694	7,798
Transfer from Pension Reserve	–	(297,507)	–	–
Found Assets	–	52	–	34
Actuarial Gains and Losses	–	(287,348)	–	26,788
IPS Grant Reserve Movement	–	(1,962)	–	(179)
Agency repayments to Core	–	–	13,000	–
Other*	22,413	111	–	–
<b>Balance at 31 March</b>	<b>4,041,280</b>	<b>3,558,267</b>	<b>3,687,430</b>	<b>3,783,300</b>

\*Shown within the Other category in the core Department is a non-cash repayment of £22,310k to HM Prison Service.

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

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

	2006-07 £000		Restated 2005-06 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	1,739,185	1,746,451	1,577,122	1,581,989
Arising on revaluation during the year (net)	381,221	383,980	169,757	172,260
Transferred to General Fund in realised element of Revaluation Reserve	(10,692)	(11,812)	(7,694)	(7,798)
<b>Balance at 31 March</b>	<b>2,109,714</b>	<b>2,118,619</b>	<b>1,739,185</b>	<b>1,746,451</b>

**23(b) Donated Asset Reserve**

The Donated Asset Reserve reflects the net book value of assets donated to the Department.

	2006-07 £000		2005-06 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	-	42	-	12
Additions during the year	-	12	-	33
Release to the Operating Cost Statement	-	(5)	-	(3)
<b>Balance at 31 March</b>	<b>-</b>	<b>49</b>	<b>-</b>	<b>42</b>

**23(c) Pension Reserve**

The Pension Reserve represents the shortfall in the NPS Pension Scheme at the year end.

	2006-07 £000		2005-06 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	-	(297,507)	-	(297,507)
Transfer to General Fund Reserve	-	297,507	-	-
<b>Balance at 31 March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(297,507)</b>

**24. Notes to the Consolidated Cash Flow Statement****24(a) Reconciliation of operating cost to operating cash flows**

	Note	2006-07	Restated 2005-06
		£000	£000
Net operating cost	13	(13,754,682)	(12,911,771)
Adjustments for non-cash transactions		543,063	491,197
(Increase)/Decrease in Stock		4,651	1,394
(Increase)/Decrease in Debtors		161,345	(291,261)
less movements in debtors relating to items not passing through the OCS		(299,539)	190,504
Increase/(Decrease) in Creditors		278,817	236,251
less movements in creditors relating to items not passing through the OCS		(147,216)	(95,095)
Use of Provisions	21	(68,714)	(53,360)
Adjustments for NPS Pension Funding		(9,090)	(14,113)
<b>Net cash outflow from operating activities</b>		<b>(13,291,365)</b>	<b>(12,446,254)</b>



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

		<u>2006-07</u>	<u>Restated 2005-06</u>
	Note	£000	£000
Tangible fixed asset additions	14	(537,847)	(463,509)
Intangible fixed asset additions	15	(1,444)	(953)
Proceeds of disposal of fixed assets		36,670	51,124
Less Donated Assets		–	67
Investment Additions		(3,580)	–
Investment Repayments		1,193	–
<b>Net cash outflow from investing activities</b>		<u><b>(505,008)</b></u>	<u><b>(413,271)</b></u>

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

	<u>Capital expenditure</u>	<u>Loans etc</u>	<u>A in A</u>	<u>Net Total</u>
	£000	£000	£000	£000
Request for Resources 1	–	–	–	–
<b>Total 2006-07</b>	<u><b>539,291</b></u>	<u><b>2,387</b></u>	<u><b>(36,670)</b></u>	<u><b>505,008</b></u>
<b>Total 2005-06*</b>	<u><b>464,462</b></u>	<u><b>–</b></u>	<u><b>(76,315)</b></u>	<u><b>388,147</b></u>

\*The 2005-06 figures have not been restated as these numbers were previously reported to Parliament.

**24(d) Analysis of financing**

		<u>2006-07</u>	<u>Restated 2005-06</u>
	Note	£000	£000
From the Consolidated Fund (Supply)- current year	22	14,397,897	12,905,310
Machinery of Government transfers		–	(135,191)
From the Consolidated Fund (Supply)- prior year		299,539	109,035
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		(14,377)	(15,458)
<b>Net financing</b>		<u><b>14,683,059</b></u>	<u><b>12,863,696</b></u>

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

		<u>2006-07</u>	<u>Restated 2005-06</u>
	Note	£000	£000
Net Cash Requirement		(14,133,858)	(13,204,848)
From the Consolidated fund (Supply) – current year	24(d)	14,397,897	12,905,310
From the Consolidated fund (Supply) – prior year	24(d)	299,539	109,035
Amounts due to the Consolidated Fund – received in a prior year and paid over		(238,684)	(86,618)
Amounts due to the Consolidated Fund received and not paid over		132,622	238,684
Movement in NPS Cash Balance		14,188	(3,967)
Payment due to the Consolidated Fund		–	(101,645)
Machinery of Government transfers		114,940	(50,779)
<b>Increase/(decrease) in cash</b>		<u><b>586,644</b></u>	<u><b>(194,828)</b></u>

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

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

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

	<u>2006-07</u>	<u>Restated 2005-06</u>
	£000	£000
Objective 1	7,129,128	6,702,267
Objective 2	4,556,964	4,111,830
Objective 3	213,803	175,206
Objective 4	1,390,046	1,361,157
<b>Total</b>	<b><u>13,289,941</u></b>	<b><u>12,350,460</u></b>

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

### Capital Employed by Departmental Aim and Objectives at 31 March 2007

	<u>2006-07</u>	<u>Restated 2005-06</u>
	£000	£000
Objective 1	351,455	260,786
Objective 2	5,455,337	4,879,944
Objective 3	11,100	19
Objective 4	(140,957)	91,537
<b>Total</b>	<b><u>5,676,935</u></b>	<b><u>5,232,286</u></b>

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

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

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

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

## 26. Capital Commitments

	<u>Core</u>	<u>2006-07 Consolidated</u>	<u>Core</u>	<u>2005-06 Consolidated</u>
	£000	£000	£000	£000
Contracted capital commitments as at 31 March for which no provision has been made	73,328	90,832	198,259	250,772
Approved but not contracted capital commitments	1,329	17,362	352,618	370,555
	<u>74,657</u>	<u>108,194</u>	<u>550,877</u>	<u>621,327</u>

## 27. Commitments under leases

### 27.1 Operating leases

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

#### Obligations under operating leases comprise:

	<b>Core</b>	<b>2006-07 Consolidated</b>	<b>Core</b>	<b>2005-06 Consolidated</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Land and buildings:</b>				
Expiry within 1 year	2,296	2,853	890	1,893
Expiry after 1 year but not more than 5 years	17,122	24,711	4,411	6,011
Expiry thereafter	26,198	31,656	96,732	103,578
	<u>45,616</u>	<u>59,220</u>	<u>102,033</u>	<u>111,482</u>
<b>Other:</b>				
Expiry within 1 year	211	1,417	1,041	2,773
Expiry after 1 year but not more than 5 years	903	5,608	71,379	74,429
Expiry thereafter	1	444	-	658
	<u>1,115</u>	<u>7,469</u>	<u>72,420</u>	<u>77,860</u>
	<b><u>46,731</u></b>	<b><u>66,689</u></b>	<b><u>174,453</u></b>	<b><u>189,342</u></b>

### 27.2 Non-cancellable contracts:

At 31 March 2007, the Prison Service was committed to making the following payments during the next year in respect of contracts expiring:

	<b>Core</b>	<b>2006-07 Consolidated</b>	<b>Core</b>	<b>2005-06 Consolidated</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Rentals due within 1 year	-	55,600	-	64,149
Rentals between 2 - 5 years	-	18,025	-	29,325
Rentals over 5 years	-	70,167	-	18,865
	<u>-</u>	<u>143,792</u>	<u>-</u>	<u>112,339</u>

## 28. Commitments under PFI contracts

### 28.1 Off-balance sheet

#### Home Office Central London Accommodation

On 26 March 2002, a 29 year public private partnership contract was signed for the construction and maintenance of a new central London headquarters building at 2 Marsham Street. The new building houses the majority of staff in the Home Office based in central London. The new property is built and run by Anne's Gate Property (AGP) consortium and is not an asset of the Home Office. Construction was completed by quarter one of 2005 and the building is now fully operational. The contract has an estimated capital value of £200m, and the contract runs for 29 years from the 26 March 2002. The Home Office is committed to making partially indexed annual payments which in 2006-07 totalled £34.699m plus (recoverable) VAT.

### Home Office IT Systems

The Core Home Office modernisation programme commenced in February 2001 when the contractor, SIRIUS, a specially constructed consortium of Fujitsu (formerly ICL), PWC (who have now departed from the contract) and Global Crossing assumed responsibility for operating and maintaining the Home Office's IT and telephony. Over the 10 year life span of the programme, the contractor will develop the Home Office's e-mail, Intranet, Extranet and telephone voice services, supporting an estimated 19,000 desktops. The contract is treated as off balance sheet with the separation of payment streams to the contractor for IT and telephony charged to the Operating Cost Statement.

### Immigration and Nationality Directorate – IT Support Services

2006-07 was the third year of the six year contract awarded under the Public Private Partnerships (PPP) initiative to ATOS Origin for the supply of infrastructure, development and support services for the Immigration and Nationality Directorate. The annual payments are estimated at £39m for the duration of the contract.

### HM Prison Service – Provision of an IT Managed Service

HM Prison Service IT Managed Service contract is classified as an off balance sheet PFI contract running for a period of 12 years expiring in 2012. The annual payments are estimated at £70m for the duration of the contract.

### Identity & Passport Service Data Capture and Supply Systems

The 3M SP&SL and the Siemens IT Services and Solutions contracts are classified as off balance sheet PPP arrangements. There are material contracts with 3M SP&SL (expiry October 2010), Siemens IT Services and Solutions (expiry October 2008 extension currently being negotiated). The total award value of the two contracts over the full term is estimated at £ 311m.

### Criminal Records Bureau PPP Contract

2006-07 was the fifth year of the ten year contract awarded under the PPP initiative to provide the disclosure processing service. The contract (from March 2002 to March 2012) has an estimated total value of £400m, with the actual final value determined by demand for disclosure notices.

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

The payments to which the Department is committed during 2006-07 and beyond, analysed by the period during which the commitment expires are as follows:

	<b>Core Department</b>	<b>2006-07 Consolidated</b>
	<u>£000</u>	<u>£000</u>
<b>Imputed finance lease obligations under off-balance sheet for above PFI contracts comprise:</b>		
Rentals due within 1 year	77,972	178,040
Rentals due within 2 to 5 years	236,115	636,318
Rentals due thereafter	959,648	959,648
Less interest element	–	–
<b>Total</b>	<b><u>1,273,735</u></b>	<b><u>1,774,006</u></b>

This disclosure was included for the first time in 2006-07 as a consequence prior year comparative data has not been provided.

## 28.2 On-balance sheet

### Home Office (Correctional Services) Contracts

Under FRS 5, these assets are treated as an asset of the Home Office and in accordance with Technical Note No1 (revised), entitled 'How to account for PFI Transactions' as required by the FReM, the buildings are treated as assets of the Home Office.

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

The capital value of the buildings associated with these contracts was estimated on construction to be £424.9m (£424.9m in 2005-06) and the net book value included in the accounts at 31 March 2007, after indexation and depreciation is £502.2m (£485.4m in 2005-06). The depreciation charge for the year on these properties amounted to £8.9m (£8.4m in 2005-06). The freehold land for these prisons is owned by the Home Office and leased to the contractors for a peppercorn rent.

### Details of other PFI contracts

Under FRS 5, the assets below are treated as assets of the Home Office and in accordance with Technical Note No1 (revised), entitled 'How to account for PFI Transactions' as required by the FReM, the buildings are treated as assets of the Home Office.

The following contracts are in operation:

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

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

Design, build, finance and operate a 500 place category B prison at HMP Lowdham Grange, with a term of 30 years from 08 November 1996. The estimated capital value of the contract is £32m.

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

Design, build, finance and operate an 800 place category B prison HMP Forest Bank, on site of former Agecroft power station, with a term of 30 years from 02 July 1998. The estimated capital value of the contract is £38.6m.

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

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

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

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

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

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

The payments to which the department is committed during 2006-07 and beyond, analysed by the period during which the commitment expires is as follows:

	<b>Core Department</b>	<b>2006-07 Consolidated</b>
	£000	£000
<b>Imputed finance lease obligations under on-balance sheet for above PFI contracts comprise:</b>		
Rentals due within 1 year	14,437	16,104
Rentals due within 2 to 5 years	70,263	76,931
Rentals due thereafter	265,180	270,500
Less interest element	-	-
<b>Total</b>	<b>349,880</b>	<b>363,535</b>

## 29. Other financial commitments

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

The Core Home Office has entered into contracts with various providers for the provision of:

Dispersed accommodation and an application registration card for asylum seekers;  
Prisoner escorting services and electronic monitoring of offenders on probation;  
Drug treatment Outcome Research project at the University of Manchester; and  
Various IT contracts for the Criminal Justice System Exchange.

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

Gwent Probation Board has entered into a non cancellable contract for the Home Computing Initiative. The payment of this sum is offset by lower salary through a salary sacrifice scheme.

The Identity and Passport Service has outsourced suppliers and has financial commitments under these contracts until the end of the contract term. These are material contracts with 3M SP&SL (expiry October 2010), Siemens IT Services and Solutions (expiry October 2008 extension currently being negotiated), Secure Mail Services (expiry May 2007 extended from February 2007), Tele-performance (expiry 2007) and Atos Origin (expiry August 2009). Much of the financial commitment on these contracts is based on volumes of passports produced and is estimated at £311m until the expiry of each contract.

The payments to which the Department and its Agencies are committed during 2006-07, analysed by the period during which the commitment expires are as follows:

	<b>Core</b>	<b>2006-07 Consolidated</b>	<b>Core</b>	<b>2005-06 Consolidated</b>
	£000	£000	£000	£000
Expiry within 1 year	442,288	442,564	567	567
Expiry within 2 to 5 years	1,717,894	1,718,103	-	655
Expiry thereafter	-	-	-	-
<b>Total</b>	<b>2,160,182</b>	<b>2,160,667</b>	<b>567</b>	<b>1,222</b>

The payments analysed above exclude the UK Passport Service payment of £311m due to commercial sensitivity. This is consistent with the disclosure made in the 2006-07 audited Identity and Passport Service accounts.

The large variance in the figures reported in the table above is the result of an increase in the quality of information obtained for the production of the 2006-07 accounts.

### 30. Financial Instruments

#### 30.1 Risk management objectives and policies

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

Because of the largely non-trading nature of its activities and the way government departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow, invest surpluses, or purchase foreign currency. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the Department in undertaking its activities.

#### 30.2 Liquidity risk

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

#### 30.3 Interest rate risk

The Department has no material financial assets or financial liabilities carrying variable rates of interest and it is not therefore exposed to significant interest rate risk.

#### 30.4 Currency risk

The Department does not conduct any material business denominated in foreign currency and therefore is not exposed to any significant risk as a result of currency fluctuations. All foreign currency transactions are accounted for in accordance with accounting policy Note 1.14.

#### Financial Liabilities

	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Non interest bearing financial liability £000	Fixed rate financial liabilities Weighted average interest rate %	Fixed rate financial liabilities Weighted average period for which rate is fixed Years	Non interest bearing financial liabilities Weighted average period until maturity Years
<b>At 31 March 2007</b>							
Sterling	559,681	–	364,337	195,344	8	30	1
<b>Gross Financial Liabilities</b>	<b>559,681</b>	<b>–</b>	<b>364,337</b>	<b>195,344</b>	<b>8</b>	<b>30</b>	<b>1</b>
<b>At 31 March 2006</b>							
Sterling	363,255	–	363,255	–	8	30	1
<b>Gross Financial Liabilities</b>	<b>363,255</b>	<b>–</b>	<b>363,255</b>	<b>–</b>	<b>8</b>	<b>30</b>	<b>1</b>

## Financial Assets

	Total	Floating rate financial assets	Fixed rate financial assets	Non interest bearing financial assets
	£000	£000	£000	£000
<b>As at 31 March 2007</b>				
Sterling	570,910	–	20,454	550,456
<b>Gross Financial Assets</b>	<b>570,910</b>	<b>–</b>	<b>20,454</b>	<b>550,456</b>
<b>At 31 March 2006</b>				
Sterling	60,000	–	12,000	48,000
<b>Gross Financial Assets</b>	<b>60,000</b>	<b>–</b>	<b>12,000</b>	<b>48,000</b>

## 31. Contingent Liabilities disclosed under FRS 12

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

A contingent liability of £32.4 million has been reported for costs relating to various legal claims against the Department. The contingent liability reflects all known claims where legal advice indicates that the criteria have not been met for a provision.

HM Prison Service would be liable to meet any uninsured costs incurred by the privately managed prisons.

An indemnity of up to £50m, in respect of any one accident, has been given to the British Airports Authority (BAA). This is in respect of damage or injury caused to third parties arising out of the negligence of HM Prison Service in their use of vehicles travelling airside for the repatriation of prisoners. The likelihood of a liability arising from these contingencies is considered to be remote.

Claims for injury to staff, prisoners and the public amounting to £9.9m (£11.4m in 2005-2006) have been indicated to HM Prison Service, where the likelihood of a liability arising is possible but not likely. Other claims for compensation where it is more likely than not that a liability will arise have been provided for in Note 21.

The Public Private Partnership agreements with Siemens IT Services and Solutions Ltd and 3M SP&SL are due for expiry in the next two years. These contracts contain early expiry and other clauses which if exercised would result in financial liabilities being incurred. IPS believes that the likelihood of these crystallising is remote, but as a possibility remains, are disclosed here for completeness.

At 31 March 2007, the CRB had received claims for compensation the amount of which cannot be readily estimated. Full provision is made in the financial statements for all liabilities which are expected to materialise.

At the Balance Sheet date, 4 Probation Boards had contingent liabilities. They are Lancashire, Northamptonshire, Nottinghamshire and Warwickshire.

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

Northamptonshire: There are a small number of job evaluation appeals remaining to be undertaken in 2007-08, the outcome of which is uncertain. If the appeals prove to be successful they could be backdated to April 2006.



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

Warwickshire: There is an on-going employee claim against the Board. It is not possible to accurately predict whether or not the claimant will succeed.

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

### 32.1 Quantifiable

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

	1 April 2006	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2007	Amount Reported to Parliament by Depart- mental Minute
	£000	£000	£000	£000	£000	£000
Airwave – Potential costs of failure	500,000	–	–	–	500,000	–
Airwave – London Underground	–	100,000	–	–	100,000	–
BAA – indemnity in respect of damage or injury arising from the immigration and Nationality Directorate (IND) in use of vehicles operating airside while transporting immigration officers between various airside locations	–	50,000	–	–	50,000	–
BAA – indemnity raised in respect of damage or injury arising from negligence of Home Office staff in their use of vehicles operating airside	–	50,000	–	–	50,000	–
The Home Office Central London Accommodation (HOCLAS) Project for the relocation of Home Office and HMPS accommodation to Marsham Street. Minute laid 23 January 2002.	1,750	–	–	–	1,750	–
The Security Industry Authority (SIA) registered a contingent liability concerning the effect of Transfer of Undertakings Protection Of Employment (TUPE) with certain local authority staff who currently license door supervisors for the Security Industry. Minute laid 8 May 2003.	3,000	–	–	–	3,000	–
The Sirius IT contract: potential costs if the contract was terminated	12,000	–	–	–	12,000	–
<b>Total</b>	<b>516,750</b>	<b>200,000</b>	<b>–</b>	<b>–</b>	<b>716,750</b>	<b>–</b>

Indemnities have been provided to various members of the International Air Transport Association's Simplifying Passenger Travel Interest Group (Accenture, British Airports Authority, Cathay Pacific, Emirates, IER, Raytheon, Sagem and SITA), in relation to any claims by said members in respect of infringement of their Intellectual Property Rights, or loss or damage to their tangible property, arising from working with the UK Immigration Service to test operational concepts around identity management and biometrics in a live environment - the "miSense trial". Home Office liability is limited to £5m.

### **32.2 Unquantifiable**

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

The National Probation Service has reported the provision of indemnity to members of the 42 local area Probation Boards to maintain the same status of indemnity that was provided by Local Authorities. The Government has agreed that an individual Board member should be indemnified against legal damages and costs arising from advice given, or actions done, honestly and in good faith in the execution of his or her board functions, except where the member has acted recklessly.

Idemnity, has been provided to the Chairman and members of the Harmondsworth and Campsfield Inquiry Team in carrying out, in good faith and honesty, the inquiry into the disturbances at the Harmondsworth and Campsfield Immigration Removal Centres (Minute 4 July 2007).

#### *Guarantees*

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

Police – City of London Economic Crime Basic Command Unit (ECBCU) (Minute laid 12 March 2004).

If the Home Office reduces or discontinues its share of the match funding of the expanded ECBCU then it will contribute up to 50% to any resulting costs, e.g. redundancy payment or property costs.

#### *Indemnities*

**IND New Detection Technology in Belgium and Eire.** (Minute laid 10 September 2003)

All NDT equipment is loaned by the United Kingdom Immigration Service to recipients:

- i) Zeebrugge: Fuher Heartbeat equipment and building and One Passive Millimetric Wave Imager Truck;
- ii) Rosslare: One Passive Wave Millimetric Wave Imager Truck.

**IND New Detection Technology in Belgium, Holland and Germany.** (Minute laid 18 December 2003)

All NDT equipment is loaned by the United Kingdom Immigration Service to recipients:

- i) Zeebrugge: Fuher heartbeat equipment and building;
- ii) Ostend and Zeebrugge: Heartbeat equipment and shelters;
- iii) Vlissingen: Heartbeat equipment and shelters;
- iv) Germany: Polish Frontier Two Passive Millimetric Wave Imager Trucks.

**IND New Detection Technology in France.** (Minute laid 18 December 2003)

All NDT equipment is loaned by the United Kingdom Immigration Service to recipients:

*Action with UK and French Memorandum of Understanding:*

- i) Calais: heartbeat equipment and building, Passive Millimetric Wave Imager trucks;
- ii) Coquelles: heartbeat detection unit at the Euro tunnel operated in the juxtaposed control zone by the UKIS.

*Action since English/French convention signed 24 November 2003:*

- i) Calais: Heartbeat equipment and two buildings in juxtaposed control zone commenced Spring 2004;
- ii) Caen/Ouistreham: Passive Millimetric Wave Imager commenced Spring 2004;
- iii) Caen/Ouistreham: Heartbeat equipment and building commenced Summer 2004;
- iv) Cherbourg: Passive Millimetric Wave Imager commenced Spring 2004;
- v) Cherbourg: Heartbeat equipment and building commenced Summer 2004;
- vi) Dieppe: Heartbeat equipment and building commenced Summer 2004;
- vii) Dunkerque: Heartbeat equipment and building commenced Summer 2005. Heartbeat equipment and building operated by the UKIS in the juxtaposed control zone and commenced operation in Spring 2004;
- viii) Le Havre: Passive Millimetric Wave Imager, Heartbeat equipment and building commenced Spring 2004;
- ix) Roscoff: Heartbeat equipment and building commenced Summer 2004;
- x) St Malo: CO2 probes to be operated by French operators.

**IND New Detection Technology France and Austria.** (Minute laid 16 March 2004)

All NDT equipment is loaned by the United Kingdom Immigration Service to recipients.

- i) Coquelles: Shelter for and heartbeat detection equipment which is under control of, and operated by, the United Kingdom Immigration Service in the juxtaposed control zone;
- ii) Austria: Austrian Border Guard receive one Passive Millimetric Wave Imager truck (previously in Germany) for an unspecified period.

**IND New Detection Technology in Europe.** (Minute laid 2 July 2004)

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

**Kent Police and Kent Police Authority.** (Minute laid 10 October 2005)

Indemnity for Kent Police, and the Kent Police Authority, in respect of any financial liability arising from their giving evidence in respect of the Euro Tunnel arbitration claim.

**Mubarek Inquiry team.** (Minute laid 10 March 2006)

Indemnity in relation to any legal action taken against the Chairman or members of the Independent Inquiry into the death of Zahid Mubarek at the Feltham Young Offenders Institution.

**Seaports and London City Airports.** (Minute to be laid after Parliamentary Recess)

Indemnities provided to various site authorities of, and terminal operators at, seaports and London City Airport, in respect of any loss, liability cost, expense or damage arising out of, or in connection with, the installation and commissioning of said port authorities and terminal operators. The nature and quantum of those indemnities will vary from project to project, as follows:

- i) loss, liability, cost, expense or damage incurred as a result of on site actions taken by Home Office or HM Revenue & Customs staff. Home Office liability limited to a maximum of £5m per project;
- ii) the risk of non-payment by commercial insurers in response to legitimate claims made against commercial insurance policies held by Home Office works contractors and consultants in respect of loss, liability, cost, expense or damage caused by said works contractors and/or consultants on sites managed by the Association of British Ports (ABP). Home Office liability limited to £5m per claim, or the value of the commercial insurance if that is higher;
- iii) the risk of non-payment by commercial insurers in response to legitimate claims made against commercial insurance policies held by Home Office works contractors and consultants in respect of loss, liability, cost, expense or damage caused by said works contractors and/or consultants on sites that are not managed by the Association of British Ports (ABP). Home Office liability limited to a maximum of £5m per project.

**33. Losses, special payments and gifts****33(a) Losses Statement**

	Number of cases	2006-07 £000	Number of cases	Restated 2005-06 £000
<b>Details of cases</b>				
Cash losses	599	217	-	-
Claims abandoned	57	65	64	284
Administrative write-offs	8	47,996	45	6,023
Fruitless payments	202	7,649	-	-
Bicester write off	1	1,500	1	16,600
Harmondsworth write off	1	22,904	-	-
Store Losses	3,215	994	3,066	557
<b>33(b) Special Payments</b>				
Compensation Payments	7,036	15,801	3,680	17,669
Ex gratia	1	693	126	551
<b>Total of losses</b>	<b>11,120</b>	<b>97,819</b>	<b>6,982</b>	<b>41,684</b>

In 2006-07 the band for reviewing special payments changed from £100k to £250k. There were 4 payments in respect of compensation claims by staff (4 in 2005-2006), 1 compensation payment in respect of prisoners' claims (2 in 2005-2006) and 0 compensation payments made in respect of claims from members of the public (0 in 2005-2006).

Included within the administrative write-offs is an impairment value of £47,091k relating to downward indexation of certain fixed assets and the results of an extensive Home Office fixed asset verification exercise undertaken in 2006-07.

On 14 June 2005, it was announced that the Home Office would not be proceeding with the Bicester Asylum Accommodation Project. Of the £33.7m incurred on the project a balance of £6.1m was retained on the Balance Sheet as it was assumed that this would contribute to the construction of a new removal centre. After a detailed review, an additional £1.5m relating to consultancy expenditure previously capitalised has been written off.

A disturbance at Harmondsworth Immigration Removal Centre in November 2006 led to physical damage to the buildings estimated at £7.1m. However, in the light of the disturbance the Home Office has decided that the centre cannot be securely operated with all 4 wings in their current configuration. It has therefore charged to operating cost an impairment of £22.9m, representing the total depreciated replacement cost of 2 wings, plus the damage to the other parts of the centre which remained unrepaired at 31 March 2007.

A total of £462k in compensation payments was made to senior staff in respect of early severance. This was comprised of a compensation payment of £400k to Martin Narey (who was a member of the Home Office Board) and £62k in respect of a senior member of staff at HMPS.

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

Payments made by the Asylum Resources Directorate in 2006-07 include £6.771m in respect of "voids". This is a reduction of £10.187m compared to 2005-06 and reflects the continued efforts being made to reduce these costs. Voids are bed spaces not occupied at a particular time for which the Home Office is contractually liable to pay; their retention has, in the past, allowed the Immigration and Nationality Directorate the flexibility to accommodate applicants at short notice at lower cost than it would otherwise have obtained. However, improved management of the estate has allowed the introduction of new contract arrangements which will reduce the cost of voids still further in the coming year.

**33(b) Gifts Statement**

A gift to the Pakistan Anti-Narcotics Force (ANF) of two helicopters with spares to the value of £6m. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 8 March 2006. The gift has not yet been made, but it remains the intention of the Home Office to make this gift, and the procurement process is now underway.

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**34. Related-party transactions**

The Home Office is the parent Department of HM Prison Service, the Identity and Passport Service, the Criminal Records Bureau, the National Probation Service, and holds an investment in the Forensic Science Service Ltd. These bodies are regarded as related parties, with which the Home Office has had various material transactions during the year.

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

Notes 18 and 20 provide details of intra-government balances, sponsored NDPBs, and the Forensic Science Service.

Details of related party transactions of the HM Prison Service, the Identity and Passport Service, the Criminal Records Bureau, and the National Probation Service are disclosed in their audited accounts.

**35. Third party assets**

There are some immaterial third party assets (£79k) held by the Probation Service and these have been separately disclosed in the National Probation Service accounts.

HM Prison Service holds third party monies of £8,831k (£7,875k in 2005-06). This relates to monies held on behalf of prisoners.

**35.1 Disclosure of seized assets**

During the financial year the Department recognised income of £135,965k in relation to amounts recovered under the Proceeds of Crime Act 2002 and earlier legislation. Expenditure of £69,206k was incurred in the form of grants to law enforcement agencies.

### 36. Entities within the departmental boundary

The entities within the boundary during 2006-07 were as follows:

#### Entities consolidated

The Home Office Departmental accounting boundary encompassed the central government Department, three Executive Agencies and the National Probation Service. The Executive Agencies were HM Prison Service, the Identity and Passport Service and the Criminal Records Bureau. The accounts of all of these entities form part of the Home Office's consolidated financial statements.

In 2004 the Home Office established the National Offender Management Service (NOMS) to balance the demand for and capacity of correctional services, and to provide a more integrated service. NOMS covers a number of organisations, including prisons and probation, to ensure that a range of services are available to adult offenders and to those on remand throughout England and Wales. During 2006-07 both HM Prison Service and the National Probation Service produced separate annual accounts that were laid before Parliament.

#### National Probation Service (NPS)

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

#### HM Prison Service (HMPS)

HMPS is responsible for providing prison services in England and Wales. The main function is to ensure that offenders and those remanded in custody are supervised in such a way as to protect the public and by giving offenders the opportunity to lead law-abiding, productive and healthy lives.

#### Identity & Passport Service (IPS)

IPS is responsible for providing passport services for British Nationals in the United Kingdom promptly and economically. IPS's primary objective is to provide the best possible service to its customers while maintaining the integrity of the British passport.

#### Criminal Records Bureau (CRB)

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

In addition, the Border and Immigration Agency (BIA) (formerly Immigration and Nationality Directorate) will become an executive agency from 1 April 2008. This entity will continue to focus on securing our borders, preventing abuse of our immigration laws and managing migration to boost the UK. From 1 April 2007 BIA will be operating in a shadow form in preparation for becoming a full Executive Agency of the Home Office.

#### Forensic Science Service (FSS)

FSS is principally responsible for supplying scientific support for criminal investigations and for providing expert evidence to the courts. FSS is a Government owned company having previously been a Government Trading Fund. FSS is treated as an investment on the Home Office Balance Sheet.

#### Entities not consolidated

Public bodies for which the Home Office had lead policy responsibility during 2006-07 within government, but which are outside of the consolidation boundary for accounting purposes, are set out below. Non-Departmental Public Bodies (NDPBs) are reflected in the Home Office accounts by the inclusion of funds paid to them as grants or expenses and by the reflection of any control issues in the Home Office's Statement on Internal control. The executive NDPBs publish their own annual reports and accounts which can be obtained from The Stationery Office or the relevant body.

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

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

- Central Police Training & Development Authority (CENTREX) (activities transferred to NPIA)
- Criminal Cases Review Commission
- Criminal Injuries Compensation Authority
- Independent Police Complaints Commission
- National Policing Improvement Agency (from 1 April 2007)
- Office of the Immigration Services Commissioner
- Parole Board for England and Wales
- Police Information Technology Organisation (activities transferred to NPIA)
- Security Industry Authority
- Serious and Organised Crime Agency
- Youth Justice Board for England and Wales

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

- Advisory Board on Naturalisation and Integration
- Advisory Council on the Misuse of Drugs
- Advisory Panel on Country Information
- Animal Procedures Committee
- Correctional Services Accreditation Panel
- IND Complaints Audit Committee
- Police Advisory Board for England and Wales
- Police Negotiating Board
- Prison Service Pay Review Body for Wales
- Technical Advisory Board
- Sentencing Advisory Panel
- Sentencing Guidelines Council
- Victims Advisory Panel

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

- Investigatory Powers Tribunal
- Office of Surveillance Commissioners
- Police Arbitration Tribunal
- Police Discipline Appeals Tribunal

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

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

**Other Public Bodies**

Annual Reviewer of the Terrorism Act 2006  
Annual Reviewer of the control order provision of the Prevention of Terrorism Act 2005 and Part 1 of the Terrorism Act 2006  
Annual Reviewer of the Criminal Justice (Conspiracy and Terrorism) Act 1998  
Asylum Support Adjudicators  
Criminal Justice Consultative Council  
HM Chief Inspector of Prisons  
HM Chief Inspector of Probation  
HM Inspectorate of Constabulary  
IND Complaints Audit Committee  
Independent Assessor for Miscarriage of Justice Compensation  
Independent Race Monitor  
Intelligence Services Commissioner  
Interception of Communications Commissioner  
Ministerial Advisory Group to Retail Crime Reduction Action Team  
Prisons and Probation Ombudsman  
Property Crime Reduction Action Team  
Selection Panels for Independent Members of Police Authorities

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**37. Prior Year Adjustments****37.1 Correction of Prior Year accrual balance**

The Home Office's 2005-06 Resource Accounts received a limitation of scope qualification in respect of its accruals balance (liabilities to pay suppliers where no invoice has yet been received). The qualification arose as a review of this balance during the audit of the 2005-06 Home Office's accounts identified evidence that the accruals were overstated; however sufficient assurance could not be gained to conclude upon the level of error.

Further testing and review work continued during 2006-07 to identify the level of overstatement of the previous year's accruals. This work led to the assessment that accruals were overstated by £105.3m. As a result, to establish the correct figure for accruals in 2005-06 a prior period adjustment of £105.3m was made in the 2006-07 accounts.

The adjustment has necessitated the restatement of the brought forward balance of the 2006-07 General Fund, the 2005-06 accruals balance and Operating Cost Statement (including notes 9 - 11). These disclosures are for the purposes of parliamentary control and ensure that resource and cash transactions are fully reported to Parliament.

**37.2 Machinery of Government changes**

With effect from 1 April 2006 the activities and staff of the National Crime Squad (NCS) and the National Criminal Intelligence Service (NCIS) were transferred to the Serious Organised Crime Agency (SOCA) an NDPB of the Home Office and the activities and staff of the National Technical Assistance Centre were transferred to the Government Communications Headquarter (GCHQ).

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

On 6 May 2006 the Active Communities Directorate transferred to the Cabinet Office to form a new Office of the Third Sector. Other parts of the Home Office's Communities Group transferred to the Department for Communities and Local Government (DCLG). This resulted in the transfer of 280 full time equivalent posts to DCLG and the Cabinet Office.

On 29 March 2007 the creation of an Office for Security and Counter-Terrorism within the Home Office was announced.



The impact of the above Machinery of Government Changes on the Home Office's 2005-06 comparative figures is detailed below:

As a result of the methodology used in ascertaining the revised opening balances following the Machinery of Government changes there are rounding differences between the closing position for 2005-06 and the opening position for 2006-07. The cumulative effect within Fixed Assets is a difference of £5k.

	<u>2005-06</u>
	<u>£000</u>
Staff costs	(15,176)
Other admin costs	16,643
Programme income	244
Programme costs	(117,596)
<b>Total</b>	<b><u>(115,885)</u></b>

	<u>2005-06</u>
	<u>£000</u>
Fixed assets	(22,303)
Debtors	32
Cash	(114,941)
Creditors	32,350
General fund	220,714
Revaluation reserve	33
<b>Total</b>	<b><u>115,885</u></b>

The net cash impact of the machinery of government changes on the 2005-06 Net Parliamentary funding is £135,191k as shown in Note 24d.

### 37.3 Reclassification of IPS assets

The opening balances of tangible Fixed Assets in Note 14 have been restated to reflect revised categorisation of assets for the Identity and Passport Services figures consolidated. There is no overall change to the total net book value recorded from this reclassification. This change has resulted in a reduction in the opening net book value of Plant and Machinery by £18,851k and an increase in Information Technology and Fixtures and Fittings opening net book by £15,723k and £3,128k respectively.

### 37.4 Prior year excess Appropriations in Aid

The Departments excess Appropriations in Aid for 2005-6 of £153,190k was reported within the consolidated account figures. The resulting creditor was met by the core Department and as result should have been shown within the core Department balances. The prior year figures have been amended to reflect the correct treatment.

### 38. Post Balance Sheet Events

On 29 March 2007 the Home Secretary announced a machinery of government change which became effective from 9 May 2007. The Home Office remains responsible for crime and crime reduction, policing, security and counter-terrorism, borders and immigration, and passports and identity. The Department will be working to a revised set of objectives (further details are available in the Departmental Annual Report).

The Ministry of Justice retains responsibilities that previously fell to the Department for Constitutional Affairs and has taken on responsibility from the Home Office for criminal law and sentencing, for reducing re-offending and for prisons and probation. The Office for Criminal Justice Reform now operates from the Ministry of Justice, but retains its trilateral responsibilities and continues to report to the Home Secretary, the Secretary of State for Justice and the Attorney General.

The financial impact of the machinery of government changes noted above will be disclosed in the 2007-08 accounts.

On 1 April 2007 the Immigration and Nationality Directorate was established as a shadow Agency and was renamed the Border and Immigration Agency.

On 4 June 2007 NOMS announced, in the Offenders Management Bill, the process for Boards to apply for trust status from April 2008. Six Boards have been accepted for Phase 1 Trusts.

On 28 June 2007, Rt Hon Jacqui Smith MP replaced Rt Hon John Reid MP as Home Secretary. Admiral Sir Alan West GCB DSC replaced Baroness Scotland as Parliamentary Under Secretary of State in the House of Lords. Meg Hillier replaced Joan Ryan as Parliamentary Under Secretary of State. Gerry Sutcliffe MP left the Home Office as part of the machinery of government changes.

On 28 June 2007 the Respect Task Force transferred to the Department for Children, Schools and Families. The financial impact of this change will be disclosed in the 2007-08 accounts.

On 25 July 2007 the Prime Minister announced the intention to integrate the work of the Border and Immigration Agency, UK Visas and HMRC to create a unified border force. A review team has been set up to report in October 2007 on steps to achieve that integration.

There continues to be pressure on the detention estate due to the number of Foreign National Prisoners being held. There was an incident at the Campsfield House Immigration Removal Centre which led to the escape of 26 detainees on 4 August 2007. Mr Robert Whalley CB was asked to investigate earlier incidents at Harmondsworth and Campsfield centres. The recommendations of his inquiry are being implemented in order to reduce the risk of future incidents.

The Identity and Passport Service (IPS) has signed major new contracts with Teleperformance Limited (£27m), Special Mail Services (£47m) and has also extended its existing contract with Siemens IT Solutions and Services (£33m). IPS has also published an advertisement for the procurement of a framework arrangement to provide capabilities to support the National Identity Scheme.

The financial statements were authorised for issue on 8 October 2007.



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