

CRIMINAL JUSTICE AND COURT SERVICES ACT 2000

National Probation Service: Consolidated Accounts of the Local Probation Boards for the year ended 31 March 2007, prepared pursuant to Schedule 1, para 17(4) of the Criminal Justice and Court Services Act 2000, together with the Comptroller and Auditor General's Certificate and Report thereon.

Presented pursuant to Schedule 1, para 17(5) of the Criminal Justice and Court Services Act 2000

National Probation Service

Consolidated Accounts of the Local Probation Boards 2006–2007

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Foreword to the Consolidated Accounts for the year ended 31 March 2007

Statutory Background

The National Probation Service for England and Wales (NPS) was established by the Criminal Justice and Court Services Act 2000 (CJCS Act) and came into existence on 1 April 2001. The NPS operates within the provisions of the CJCS Act and relevant subordinate legislation and local probation boards will comply with any directions given by the Home Secretary under the powers in the legislation and act in accordance with any guidance given by him/her.

The NPS consists of the 42 Local Probation Boards (listed in Annex A to the Foreword) and, until 31 March 2007, consisted also of the National Probation Directorate (NPD) which was part of the Home Office for accounting purposes. The responsibilities of the NPD transferred to the National Offender Management Service (NOMS) headquarters in January 2007. NOMS headquarters was, until 9 May 2007, part of the core Home Office, after which it transferred to the new Ministry of Justice. The 42 Local Probation Boards produce their own accounts, which are consolidated to produce the consolidated accounts of the Local Probation Boards. These in turn are consolidated into the Home Office (from 9 May 2007, Ministry of Justice) accounts and so form part of the department's Statement of Accounts.

These accounts are a consolidation of the results of the 42 local probation boards and have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by the Treasury, and in accordance with a direction given by the Treasury in pursuance of Section 7 (2) of the Government Resources and Accounts Act 2000. The direction is reproduced on page 38.

Statement of Purpose

The NPS has five aims, specified in the Criminal Justice and Court Services Act 2000. They are:

- The protection of the public;
- The reduction of re-offending;
- The proper punishment of offenders;
- Ensuring offenders' awareness of the effects of crime on the victims of crime and the public; and
- The rehabilitation of offenders.

Principal Objectives

In its first six years of existence the NPS has created new governance and management structures and improved its performance year on year. Within the context of continuing change the NPS is aiming to maintain its focus on flexibility to adapt to changing circumstances.

The principal objectives of the NPS are set out in the NPS Business Plan for 2006/7.

The key priorities for the NPS in 2006/7 were:

1. Continue to contribute to the development of NOMS.
2. Working collaboratively with other criminal justice agencies to protect the public from harm.
3. Working with other criminal justice agencies and local Crime and Disorder reduction Partnerships in England and Community Safety Partnerships in Wales to develop a new service delivery model.
4. Working with other criminal justice agencies, Judges and Magistrates to the 2003 Criminal Justice Act with particular focus on community orders.

5. Working with the Regional Offender Managers, the Prison Service and other agencies at a regional and national level to implement the Reducing Re-offending Action Plan.
6. Working with the Prison Service and other key agencies to ensure compliance with legislation, embed quality and diversity in the NPS in its work with offenders and HR practices.

National Offender Management Service (NOMS)

The development of “end to end” offender management underpins the implementation of the CJA and is central to NOMS. All Probation Areas were required in 2005-06 to implement Offender Management in the community, and from November 2006 Offender Management was extended to an initial priority group of some 11,000 serving prisoners. Implementation for other prisoner groups will follow.

The establishment of NOMS has provided a new context for work with offenders including:

- A focus on offender management with a single offender manager responsible for assessing need, selecting and sequencing interventions;
- The use of commissioning to separate the identification of need from the delivery of services;
- The use of contestability to challenge existing providers to demonstrate they continue to provide the best value in terms of both cost and quality.

Future Developments

For 2007/8 the forty-two probation areas are required to produce a business plan which includes:

1. **Public Protection: Improving public confidence.** Promoting and explaining the work of the probation service locally.
2. **Managing people:** Workforce planning, staff development, employee relations and reducing sickness absence.
3. **Service delivery:** Public protection, offender management and interventions.
4. **Working with partners:** Developing a lead provider model and achieving the 10% contracting out target.
5. **Diversity:** Ensuring compliance with equality legislation.
6. **Efficiency:** Resource allocations; Value for Money savings and Unit Costs.

The Director of Probation and the Probation Area Co-ordination Unit will support area/regional and national initiatives to achieve efficiency savings through shared business services, process improvements and the better use of information/communications technology.

These priorities link to the Home Office Five Year Strategy to Protect the Public and Reduce Re-Offending, the NOMS Corporate Plan 2005-08 and NOMS Business Plan 2007-8.

Criminal Justice Act 2003

The Criminal Justice Act introduced radical changes to the sentencing framework in relation both to community and custodial sentences and affects the work of the NPS at all levels.

The Act sets out for the first time the purposes of sentencing which include reform, rehabilitation and reparation as well as punishment and deterrence. The Community Punishment Order, Drug Treatment Testing Orders and other community sentences are replaced with a single Community Order that can be tailored by the courts to meet the circumstances of individual cases. The Act also introduces new custodial sentences for Public Protection.

All the sentences described in Part 12 of the Act, except Custody Plus and Intermittent Custody, were implemented on 4 April 2005 and apply to offences committed on or after that date. Custody Plus was planned to be implemented in autumn 2006 but has been deferred. The limited pilot of Intermittent Custody, which operated in two prisons from 2004, came to an end in November 2006. There are no plans to implement this sentence.

The Act has led to an increased workload for the NPS from the new licence arrangements for offenders released from custody and also from the increasing use of the Community Order and Suspended Sentence Order.

Results for the Year

This is the sixth year that accounts have been produced by the NPS. The Operating Cost Statement for the year is shown on page 17 together with the Statement of Recognised Gains and Losses. The Balance Sheet and Cash Flow Statement are on pages 18 and 19 respectively.

The 2006/07 Net Operating Cost for the 42 Boards is £807.1m.

Although the NPD is part of the NPS, its expenditure is not included in the consolidation because the Directorate's expenditure is part of the Home Office Accounts. The table below shows the direct costs associated with NPD, as extracted from the Home Office accounting records.

Expenditure for NPD is:

	2006-07	2005-06
	£'000	£'000
Pay	3,062	3,626
Other Admin Costs	590	921
Total Expenditure	<u>3,652</u>	<u>4,547</u>
Income	<u>0</u>	<u>0</u>
Net Expenditure	<u>3,652</u>	<u>4,547</u>

The reduction in costs between 2005/06 and 2006/07 is due to a £0.4m budget reduction and an outturn underspend of £0.5m.

NPD was absorbed into NOMS in January 2007 and will not be reported as a separate entity in 2007/08.

Remuneration

With the exception of the Head of Diversity/Equality, the Director and Members of the Directorate Management Team are NPD staff and are therefore employed by the Home Office and are on the Home Office payroll. All the employee costs associated with the Directorate Management Team are accounted for in the Home Office Accounts.

All the 42 Local Probation Boards have their own separate Board. The remuneration of Local Probation Board members is disclosed in the Local Probation Board published accounts.

Going Concern

The balance sheet at 31 March 2007 shows net liabilities of £549.9m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from other sources of income, may only be met by future grants or grants in aid from the Ministry of Justice. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant and grant in aid for 2007-08, taking into account the amounts required to meet liabilities falling due in that year, have already been included in the departments Estimates for that year. These have

been approved by Parliament, and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Fixed Assets

Ownership of land, buildings and IT equipment transferred to the Secretary of State from the predecessor organisations on 1st April 2001.

On 1st April 2003 the responsibility for the management of the NPD estate transferred from the local probation boards to the NPD. As a result, the risks and rewards of ownership have transferred to the NPD. From the 1st April 2003 therefore, in accordance with FRS 5, the estate properties will not be accounted for in the consolidated accounts of the local boards. They are accounted for within the Home Office Consolidated Resource Accounts as tangible fixed assets.

Local Probation Boards retain ownership of vehicles and office machinery. During 2006–07 the 42 Probation Boards purchased assets costing £2.8m and disposed of assets which cost £1.5m.

Post Balance Sheet Events

With effect from 9th May 2007, responsibility for probation services were transferred from the Home Office to the newly created Ministry of Justice. On 4th June 2007, NOMs announced the process for Boards to apply for trust status from April 2008. Six Boards have been accepted as Phase I Trusts.

Research and Development

The NPS continues to ensure that its work is delivered consistently and within an agreed framework across England and Wales and uses evidence-based practice to reduce re-offending. The NPS contributes to the Home Office Public Service Agreement (PSA) standard to reduce the rate of re-offending of offenders by 10% by 2010. Research published in Autumn 2005 indicates that reconviction was 2.6% lower than the predicted rate across prison and probation.

Research is managed under NOMS Research, Development and Statistics (RDS) as part of the larger research plan for NOMS. Small scale local projects continue to be managed at the local level, and where of a sufficiently large scale are quality assured by RDS NOMS.

The NPS contributes to the National Reducing Re-offending Delivery Plan published in November 2005 and the 5 Year Strategy for Protecting the Public and Reducing Re-offending, published in February 2006. It also participates in the work of the Effective Interventions Board established by NOMS in November 2005, with representation across NOMS and the Prison and Probation Services. The major development of an Offender Management Model has been led by NOMS. The model was implemented in the NPS for orders and licence cases by spring 2006. The second phase of implementation covered adult high and very high risk of serious harm and Prolific and Persistent Offenders serving determinate custodial sentences of 12 months or more. This was rolled out from November 2006. The next phase, for adult prisoners serving indeterminate sentences for public protection (IPPs), is scheduled to begin in January 2008. To assist this implementation connectivity between the NPS and Prison Service Offender Assessment System (OASys) IT systems was completed in March 2006. OASys is used as the basis for sentence planning at the offender level and to assist with policy and practice development nationally.

The work to make unpaid work by offenders more visible through 'Community Payback' has been extended and new guidance to probation providers has been issued. Communities have been encouraged to propose unpaid work projects and projects have been identified as being completed by the probation service. Piloting of new modules to tackle substance misuse has progressed and work to streamline training for offending behaviour programmes and to make it more efficient has been implemented. New work has begun to refresh the general offending behaviour programmes.

Pensions Liabilities

See Notes 1.9 and 3 to the Accounts for further information.

Communications and Employee Involvement

During 2006-07, the number of full time equivalent employees across England and Wales has increased to an average in year figure of over 21,000, including staff working in probation offices, prisons, Youth Offending Teams (YOTs), Drug Action Teams (DATs) and Local Authority community safety teams.

A communications team continues to integrate the Director's communications, both internally and with key stakeholders outside the Probation Service. Activity ranges from monitoring and regulating communications with the 42 probation areas as the central distribution point, to publishing corporate manuals, leaflets, reports and regular briefings, to launching new projects and initiatives, to maintaining the Service's authoritative website.

The team has now integrated with the NOMS communication team and continues to be the conduit for communicating NOMS policy to the 42 areas.

The year saw the consolidation of Community Payback, promoting the visibility of Unpaid Work and the opportunity for members of the community to suggest the type of projects they would like to see completed in their area. The success of the publicity campaign surrounding Community Payback has led to an increase in offender hours from 5 million a year to 6.5 million. This represents a considerable resource for local communities.

The team has continued to work with the Home Office marketing unit and a commercial PR consultancy on a campaign to raise the profile of community sentences. This year the campaign has concentrated on some of the less visible aspects of probation work such as drug treatment and testing and offending behaviour programmes. Local radio presenters have taken part in Unpaid Work projects and a series of films has been made, aired on local TV, of offenders who have turned the corner because of a range of probation initiatives. This has particularly showcased the work of teams involved in drug rehabilitation.

The start of 2007 marked the centenary of the probation Service – 100 years since the first Probation of Offenders Act put the service on a statutory footing. The communications unit is co-ordinating celebrations. A centenary brochure has been produced and a new centenary logo adopted for the year. The celebrations culminated in a multi-faith service at Westminster Abbey.

Equality and Diversity

NOMS has refreshed and strengthened its approach to the strategic leadership of Equality and Diversity. The Chief Executive of NOMS is the champion for equality and diversity and the Director of Commissioning and Partnerships is the executive lead and owner at Board level.

As part of the NOMS HQ restructure, during 2006/07 the NPD Equality and Diversity Team relocated to the Directorate of Commissioning & Partnerships to ensure equality and diversity is mainstreamed in the commissioning and partnership framework and other headquarter directorates. As a result of the changes a review of equality and diversity across the NOMS 'family' has been commissioned to ascertain where NOMS is in relation to equality and diversity issues. This Review is scheduled to be completed during the early part of the next financial year and it is anticipated that it will provide a strategy and action plan on the way forward as well as address the issue of the role and structure for equality and diversity in NOMS.

What have we done?

An outline of some of the work progressed by NPD is detailed below:

- **Service delivery**
 - Improving the equality monitoring data of staff and offenders became a high priority for the NPS, so that meaningful analysis about the quality of service delivery to all under-represented groups could be conducted. The focus this year has been to ensure case management systems were ready to capture dedicated data on offenders' disability and that probation areas were

aware of their duty to collect similar information in respect of staff. All case management systems have been updated to record offenders' disabilities. Consideration will be given in 2007/08 to establishing baseline data on disability monitoring.

- A NOMS national strategy on hate crime is currently being developed that will provide valuable guidance and information for the management and supervision of racially motivated offenders.

- **Workforce representation**

- The NPS exceeded the Home Secretary's race equality target of 8.3% by 3.4%, achieving 11.7% in 2006/07. The Service still aims to have 7% of all Black and Minority Ethnic (BME) staff at senior management levels by 2009.
- The positive action leadership programme 'Accelerate' which facilitates the development of BME and disabled staff who have demonstrated that they have the potential to progress into senior management roles, was due to end in 2007. Due to the success of the programme, which has demonstrably assisted in the promotion and onward development of participants a decision has been taken to extent the roll out of this development programme. The Accelerate programme has been short listed for the prestigious training and development – Personnel Today Award twice, in 2005 and 2006.

- **Equality legislation**

Race Equality: Following on from the review of race equality schemes that took place in 2005 and the audit of those schemes by external consultants, the focus for 2006/07 was on working with Probation Areas to ensure that the five national high level priorities for race equality were met. Most of the Probation Areas were able to evidence that they had met the five national priorities.

Disability Equality: All 42 Probation Areas, NPD/NOMS had in place a Disability Equality Scheme by 4 December 2006. Impact assessment training has been provided for key policy officers within NPD and the Areas to enable full compliance with this piece of legislation.

Gender Equality: A national strategy was drafted during 2006/07 which provided the framework of good practice in working with female offenders. A comprehensive impact assessment was carried out on this strategy and the findings of the assessment provided a structure for the NPS Gender Equality Schemes.

Payment of Creditors

All the Local Probation Boards observe the principles of the CBI "Prompt Payment" Code and BS 7890, the British Standard for prompt payment, and aims to pay all approved invoices within 30 days. The percentage of undisputed invoices paid within 30 days by Board is shown in 5% ranges.

Range	Number of Boards within range	
	2006-07	2005-06
Less than 55%	0	0
55%-59.9%	0	1
60%-64.9%	0	0
65%-69.9%	2	1
70%-74.9%	1	0
75%-79.9%	2	5
80%-84.9%	2	2
85%-89.9%	4	6
90%-94.9%	15	10
95%-100%	16	17
Total	42	42

Audit

Local Boards are required under Schedule 2, paragraph 1(p) of the Audit Commission Act 1998 (ACA), as amended by Schedule 1 paragraph 17(3) of the Criminal Justice and Court Services Act 2000 (CJCS Act) and the Public Audit (Wales) Act 2004 (PAWA) to send a copy of the statement of accounts to the auditor appointed by the Audit Commission or the Auditor General for Wales.

In accordance with the Audit Commission Act 1998 (ACA) and the Code of Audit Practice the auditor will give an opinion whether the accounts give a true and fair view, that the transactions in all material respects are in accordance with governing authorities and give a conclusion on the board's arrangements for securing value for money.

The Boards are required to send a copy of the audited statement of accounts to NOMS Finance and Business Planning Unit for consolidation. The Boards are also required to make available as required the statement of accounts and any accounts and records relating to them, to the Comptroller and Auditor General (C&AG) so that the accounts may be examined as under paragraph 17(2) of Schedule 1 of the CJCS Act. The C&AG will examine, certify and report to Parliament on the consolidated accounts in accordance with Schedule 1 paragraph 17(5) of the CJCS Act.

The notional audit fee for the Consolidated Accounts of the Local Probation Boards 2006-07 is £69k (£69k in 2005-06).

Directorate Management Team/Probation Coherence Group

The Director of Probation is appointed under normal recruitment policies with permission from the Cabinet Office. The Director's pay is determined under the rules set out in Chapter 7.1, Annex A of the Senior Civil Service Management Code.

The following were members of the Directorate Management Team during 2006/7:

Roger Hill	Director of Probation
George Barrow	Head of Communication
John Scott	Head of Public and Licensed Release Unit
Richard Mason	Head of CJA Unit
David Griffiths	Head of Probation Change Programme
Sarah Mann	Head of Interventions Unit
Richard Cullen	Head of Probation Area Coordination Unit
Marjorie Harris	Head of Diversity/Equality
Kay Wood	NOMS Planning & Finance, Financial Controller National Probation Service

The last meeting of the Directorate Management Team was held on 13th Nov 2006 and it was superseded as a result of restructuring by the Probation Coherence Group which held its first meeting on 30th January 2007.

The following were members of the Probation Coherence Group during 2006/7:

Roger Hill	Director of Probation
George Barrow	Head of Communication
John Scott	Head of Public and Licensed Release Unit
Richard Mason	Head of Offender Assessment and Management Unit
David Griffiths	Head of Probation Change Programme
Sarah Mann	Head of Interventions & Substance Abuse Unit
Richard Cullen	Head of Probation Area Coordination Unit
David Hankin	Probation Estates Consultant
Francis Flaxington	Head of Partnerships Unit
Kay Wood	NOMS Planning & Finance, Financial Controller National Probation Service

The members of the Probation Coherence Group/Directorate Management Team have no significant interests to declare.

On 1st April 2005 Roger Hill took up his appointment as Director of Probation.

NPS Annual Report

The Annual Report for the Department is an internal performance document which was published separately on 17th July 2007 and can be accessed via the following link:
<http://www.probation.homeoffice.gov.uk/files/pdf/NPS%20Annual%20Report%202006-07.PDF>

Roger Hill

Director of Probation and National Accountable Officer
10th October 2007

Annex A

42 Local Probation Boards

Avon & Somerset
Bedfordshire
Cambridgeshire
Cheshire
Cumbria
Derbyshire
Devon & Cornwall
Dorset
Durham
Dyfed-Powys
Essex
Gloucestershire
Greater Manchester
Gwent
Hampshire
Hertfordshire
Humberside
Kent
Lancashire
Leicestershire & Rutland
Lincolnshire
London
Merseyside
Norfolk
Northamptonshire
Northumbria
North Wales
North Yorkshire
Nottinghamshire
South Wales
South Yorkshire
Staffordshire
Suffolk
Surrey
Sussex
Teesside
Thames Valley
Warwickshire
West Mercia
West Midlands
West Yorkshire
Wiltshire

Statement of National Accountable Officers' Responsibilities

Under the Criminal Justice and Court Services Act 2000 the Home Office has directed the National Probation Service to prepare for each financial year a Consolidated Account of the Local Probation Boards detailing the resources acquired, held or disposed of during the year and the use of resources by the local boards during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Local Probation Boards, and its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts, the National Accountable Officer is required to comply with the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Home Office including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis.

The Accounting Officer of the Home Office has designated the Director of Probation as Accountable Officer of the National Probation Service. The responsibilities of the National Accountable Officer, including the responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding the National Probation Service's assets, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in Government Accounting.

The Director, of Probation, as National Accountable Officer is responsible for appointing the Accountable Officers for the local probation boards. Their responsibilities are set out in their own Statements of Accountable Officer's Responsibilities, which are included in the boards' published accounts.

Statement of Internal Control

Scope of responsibility

I have responsibility as Accountable Officer for the National Probation Service for maintaining a sound system of internal control that supports:

- The achievement of the NPS policies, aims and objectives; and
- The safeguarding of the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and letters of delegation.

I discharge this responsibility in conjunction with the Accountable Officers of the Area Probation Boards. My relationship with these Accountable Officers is set out in statements contained in the NPS Management Statement and Financial Memorandum and designatory letters.

The purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed:

- To identify and prioritise the risks to the achievement of NPS corporate policies, aims and objectives;
- To evaluate the likelihood of risks being realised and its impact should they be realised; and
- To manage them efficiently, effectively and economically.

The system of internal control has been in place in the National Probation Service for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

I am committed to the ongoing development, monitoring and review of these systems to ensure they continue to be appropriate, effective and integral to the business processes of the NPS.

Capacity to handle risk

The National Probation Service comprises the National Probation Directorate (a Directorate of the Home Office) and the 42 Local Probation Boards, established under the Criminal Justice and Court Services Act 2000.

As National Accountable Officer and Director of Probation I lead the risk management process, supported by the NOMS Audit Committee and the Risk Management Project Board.

The published Risk Management Policy and Strategy (A Guide for Probation Areas & NPD 2004) has been in place throughout the year. This policy and strategy has been used by the local Probation Areas to develop their own risk management strategies, policies, and practices to assist in the identification, evaluation and treatment of various related risks in the provision of their services.

The risk and control framework

The process of risk management operated by the NPS throughout 2006/7 was consistent with both HM Treasury guidelines and the Home Office Risk Management guidance. Risks to the successful delivery of Area Probation objectives were identified; evaluated and appropriate action plans were developed to ensure effective management of the risks.

The identified risk with appropriate risk owners and action owners are detailed in each Probation Area risk register. These risks are monitored regularly by the Probation Area Audit Committee.

As part of the business planning process, each Probation Area submitted their high level 06/7 risk register to NPD. These risks were then reviewed together with identified NPD risks by the Directorate Management Team, to ensure that appropriate and corrective actions are taken so that NPS business objectives and targets are successfully delivered.

The NOMS Audit Committee continue to monitor the progress of the action plans set out in the risk register to ensure the effective management of the identified risks.

The NOMS Board also reviews the NPS risks that have been escalated to the NOMS Risk Register.

Identified key risks to the achievement of PSA targets were included in the Home Office risk register, and monitored by the Home Office Audit Committee.

Key risks in the areas of policy submission and projects undertaken are being identified regularly and appropriate action taken to reduce the impact of risk on the policy submission and projects.

Some NPS services such as IT, Estate and Finance are provided by NOMS. I draw assurance from NOMS as to the effective handling of the risks associated with these services.

During the 2006–7 financial year, the main identified and addressed risks were:-

- The impact of structural change on staff morale;
- NPS staff attendance;
- Headcount reductions resulting in pressure on capacity at the centre;
- Difficulties in recruiting Probation Board Chairs and Members by 01 April 2007;
- Management of high risk of harm cases;
- Adverse media attention causing a reduction in the capacity of the approved premises estate to house serious offenders;
- Resource pressures in Probation Area;
- Consistent implementation of offender management; and
- Ability to meet statutory and other requirements of the diversity programme.

Review of effectiveness

I have responsibility as the Accountable Officer, 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;
- The Chief Officers within the Probation Areas who have responsibility for the development and maintenance of the internal control framework;
- The executive managers within NPD;
- The external “gateway” review of key projects;
- The work of Her Majesty’s Inspectorate of Probation; and
- Comments made by the external auditors in their 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 Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Directorate Management Team (DMT)

The Directorate Management Team provided strategic direction, monitoring and management of the risks to the successful delivery of the key objectives of the organisation for most of the financial year. This was replaced by the Probation Coherence Group early in the new year.

The NOMS Audit Committee

The purpose of the Audit Committee is to advise me as NPS Accountable Officer on the adequacy of arrangements for internal control and risk management across the National Probation Service. The Committee is being chaired by an independent chair in accordance with Audit Committee best practice.

Internal Audit

The NPS Internal Audit service is provided by the Home Office Audit and Assurance Unit, operating to standards laid down in HM Treasury's Government Internal Audit Standards. The audit programmes comprise:

- Internal audit programmes delivered to the 42 Probation Boards based on a local analysis of risks;
- Audits carried out within NPD as a Home Office directorate on behalf of both myself as NPS Accountable Officer and the Home Office Accounting Officer; and
- Audits in NOMS as part of the Home Office audit programme.

As NPS Accountable Officer I draw assurance from those reviews carried out on services delivered by NOMS to NPS.

The Head of Internal Audit for the NPS provides regular reports to the NOMS Audit Committee as well as ad hoc advice on risk and governance related issues. Annually the HIA provides a report summarising internal audit findings and giving his independent opinion as to the adequacy and effectiveness of internal controls.

HM Inspectorate of Probation

Her Majesty's Inspectorate of Probation which was created under section 23 of the Probation Service Act 1993 continues to carry out its independent scrutiny of the National Probation Service and reports its findings directly to the Secretary of State.

HMIP also continues to carry out a variety of Thematic Inspections across the NPS as well as local Area inspections. Individual reports are discussed with operational management and, where appropriate, improvement programmes agreed. The overall results of these are brought together by HM Chief Inspector in an annual report. HM Inspectorate of Probation attend the Audit Committee and provide a regular update to that committee.

Planned Control Improvements

NPS is committed in ensuring a continuous improvement in the overall control of corporate governance environment. The following processes introduced will continue to be monitored:

- The review and testing of Business Continuity planning within the NPD and all Probation Areas. This will ensure that the BCP is effective and up-to date;
- Central reporting of financial data and projected expenditure by Probation Areas to NOMS Finance;
- Security of access to case management data; and
- Ongoing commitment to support Probation Areas in maintaining and improving their performance in order to meet the challenges of Trust status.

Roger Hill

Director of Probation and National Accountable Officer
10th October 2007

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

I certify that I have audited the financial statements of the National Probation Service for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the National Accountable Officer and auditor

The National Probation Service and National Accountable Officer, as Accounting Officer, are responsible for preparing the Foreword and the financial statements in accordance with the Criminal Justice and Court Services Act 2000, 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 Accountable Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Criminal Justice and Court Services Act 2000 and HM Treasury directions issued under the Government Resources and Accounts Act 2000. I 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 National Probation Service 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 National Probation Service'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 National Probation Service's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the National Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by 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.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Criminal Justice and Court Services Act 2000, the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the National Probation Service's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

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.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

15th October 2007

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

Operating Cost Statement for the year ended 31 March 2007

	Notes	2006-2007		2005-2006 (Restated)	
		£000	£000	£000	£000
Administration Costs:					
Staff costs	2	621,967		559,565	
Other administration costs	4	224,154		242,061	
Operating income	6	(41,946)		(45,180)	
Gross Administration Costs		<u>804,175</u>		<u>756,446</u>	
Add/(Less): finance charge/(income)	3e	2,595		13,529	
Net Administration Costs		806,770		769,975	
Programme Costs:					
Staff costs	5	6,135		5,373	
Programme costs	5	4,098		3,060	
Income	6	(9,929)		(8,172)	
		<u>304</u>		<u>261</u>	
Net Operating Costs			<u>807,074</u>		<u>770,236</u>

All income and expenditure is derived from continuing operations.

Statement of Recognised Gains and Losses for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Net gain/(loss) on revaluation of tangible fixed assets	7	(27)	4
Receipt of donated assets	13b	12	0
Actuarial gain/(loss) relating to the pension scheme	3f	(287,348)	26,787
Recognised gains and (losses) for the financial year		<u>(287,363)</u>	<u>26,791</u>

The notes on pages 20 to 37 form part of these accounts

Balance Sheet as at 31 March 2007

	Notes	31 March 2007 £000	31 March 2006 £000
Fixed Assets:			
Tangible fixed assets	7	7,528	6,684
Debtors falling due after more than one year	8	731	1,001
Current Assets:			
Debtors	8	21,391	23,549
Cash at bank and in hand	9	44,237	30,189
		<u>65,628</u>	<u>53,738</u>
Creditors (amounts falling due within one year)	10	<u>(49,859)</u>	<u>(61,166)</u>
Net current assets/(liabilities)		15,769	(7,428)
Total assets less current liabilities		24,028	257
Creditors (amounts falling due after more than one year)	10	(36)	(27)
Provisions for liabilities and charges	11	<u>(39,021)</u>	<u>(37,640)</u>
Net assets/(liabilities) excluding pension liability		(15,029)	(37,410)
Pension Liability	3	(534,865)	(256,607)
Net assets/(liabilities) including pension liability		(549,894)	(294,017)
Taxpayers' equity:			
General fund	12	(550,087)	(294,221)
Revaluation reserve	13a	181	204
Donated asset reserve	13b	12	0
		<u>(549,894)</u>	<u>(294,017)</u>

Roger Hill

Director of Probation and National Accountable Officer
10th October 2007

The notes on pages 20 to 37 form part of these accounts

Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Net cash outflow from operating activities	14a	(829,411)	(777,423)
Capital expenditure and financial investment	14b	(2,631)	(2,790)
Financing	14c	846,090	776,625
Increase / (decrease) in cash in the period		<u>14,048</u>	<u>(3,588)</u>

The notes on pages 20 to 37 form part of these accounts

Notes to the Accounts

1 Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2006-07 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FRoM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate and gives a true and fair view has been selected. The 42 Probation Boards accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

1.2 Going concern

The balance sheet at 31 March 2007 shows negative Taxpayers Equity. This reflects the inclusion of liabilities falling due in future years which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet Net Cash Requirement of the Home Office of which the NPS is part. Under Government Resources and Accounts Act 2000, no money may be drawn from the fund by the Home Office other than required for the service of the specified year or retained in excess of that need.

In common with government departments, the future financing of the NPS liabilities is accordingly to be met by future grants of Supply to the Ministry of Justice and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2007-08 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for preparation of these financial statements.

1.3 Tangible Fixed Assets

The minimum level for capitalisation of a tangible fixed asset is £5,000, inclusive of any irrecoverable VAT element, where appropriate. Tangible assets have been stated at current cost using published indices appropriate to the category of asset.

1.4 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 are depreciated from the point at which the asset is brought into use.

Asset lives are normally in the following ranges:

Vehicles	—	5 to 7 years;
Office Machinery, Fixtures and Fittings and IT Equipment	—	3 to 5 years.

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.

1.5 Donated Assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset 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.

1.6 Operating Income

Income is accounted for applying the accruals convention and is recognised in the period in which services are provided.

Operating income is income that relates directly to the operating activities of the 42 Probation Boards. It 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 the 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 Directorate. This interest is surrendered to HM Treasury via the Home Office who treat this as Consolidated Funds Extra Receipts (CFERs).

1.7 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income administration or as programme follow the definition of administration costs set out in the FReM by H.M. Treasury. Administration costs reflect the costs of running the 42 Probation Boards together with associated operating income. Programme costs are defined as one off projects, which are fully or partially funded from outside the Home Office, with a threshold of £10,000 per scheme.

1.8 Capital Charge

A charge, reflecting the cost of capital utilised by the 42 Probation Boards, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities except for:

- a) Provisions for Liabilities and Charges, which are charged at 2.2%, to reflect the discount rate.
- b) Pension Scheme Liability, which is charged at 1.8%, to reflect the central government pension scheme discount rate.
- c) Tangible fixed assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:
 - additions at cost;
 - disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal);
 - impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure).
- d) Donated assets, where the charge is nil.

1.9 Pensions

Past and present employees 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 retirements 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)

1.10 Early Departure Costs

The 42 Probation Boards are required to meet the additional costs of benefits beyond the normal pension benefits in respect of employees who retire early. The Probation Boards policy is to provide in full for this cost when the early retirement programme has been announced and is binding on the Probation Board. These costs are disclosed under the provisions note.

1.11 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the 42 Probation Boards, the assets are 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 the 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.

1.12 Private Finance Initiative (PFI) Transactions

Where the balance of risks and rewards of ownership of the PFI property is borne by the 42 Probation Boards, 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.

PFI schemes will be disclosed as a note to the accounts.

1.13 Grants Receivable

Monies received as grants (of any nominal type, classification, or attached conditions) are treated as financing rather than income and are recognised in the accounts by directly crediting the General Fund and are also reflected elsewhere in the statements for example in the Cash Flow statement. (Most bodies covered by the Financial Reporting Manual do not receive grants, and are financed by voted parliamentary funding).

Financing of Training Consortia

Part of the funding that goes to the 42 Probation Boards is allocated to the 10 Regional Training Consortia. This is for all the costs of the Regional Training Consortia and is split as a percentage for the 9 Lead Areas who co-ordinate the Training funds and a percentage to the remaining Probation Boards.

1.14 Provisions

The 42 Probation Boards provide for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury. A discount rate of 2.2 per cent is used.

1.15 Value Added Tax

Most of the activities of the 42 Probation Boards are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

2 Staff numbers and related costs

2(a) Total staff costs comprise:

	2006-2007		£000	2005-2006
	£000	£000		£000
	Permanently employed			
	Total	staff	Others	Total
Wages and salaries	554,435	541,148	13,287	514,382
Social security costs	41,610	41,560	50	37,962
Other pension costs	72,455	72,415	40	50,625
Sub Total	668,500	655,123	13,377	602,969
Inward Secondments	1,678	892	786	808
Total	670,178	656,015	14,163	603,777
Less recoveries in respect of outward secondments	(48,211)	(48,184)	(27)	(44,212)
Total net admin costs	621,967	607,831	14,136	559,565
Net Programme Costs	6,135	4,947	1,188	5,373
Total Staff Costs	628,102	612,778	15,324	564,938

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Probation Boards share of the underlying assets and liabilities are shown below in Note 3.

53 persons (2005-06: 63 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £845,513 (2005-06: £1,185,000).

2(b) Average number of persons employed

	2006-2007			2005-2006
	Total	Permanently employed staff		Others
	21,034	20,352	682	20,416
	21,034	20,352	682	20,416

(05/06 restated to omit outward secondments)

3 Pension costs

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

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

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

- 3(a)** A full actuarial valuation was carried out at 31 March 2004 by various actuaries. For 2006-07, employers' contributions of £84,708,000 were payable to the LGPS (2005-06 £78,766,000) in a range from 12.8% to 26.3%. The scheme's Actuaries reviews employer contributions every three years following a full scheme valuation. The salary bands were revised for 2005-06 and will remain unchanged until 2007-08. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Partnership accounts are excluded under FRS17

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

Employer's contributions for 2006-07 were 17.8% of salaries; and

Employer's contributions for 2007-08 will be 17.8% of salaries.

The results of the next actuarial valuation will be available in 2007-08 and contributions for 2008-09 will be assessed at that point.

- 3(b)** The major assumptions used by the actuary were:

	31 March 2007	31 March 2006	31 March 2005
	%	%	%
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%

- 3(c)** 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
Total market value of assets		1,959,247		1,776,536		1,408,181
Present value of scheme liabilities		2,494,112		2,033,143		1,705,688
Surplus/(Shortfall) of the scheme		(534,865)		(256,607)		(297,507)
Net pension asset/(liability)		(534,865)		(256,607)		(297,507)

3(d) Pension Cost

	2006-2007	2005-2006
	£000	£000
Current service cost	72,414	65,859
Past service cost	609	(14,735)
Total operating charge	<u>73,023</u>	<u>51,124</u>

3(e) Analysis of amount credited to other finance income or debited to other finance charge

	2006-2007	2005-2006
	£000	£000
Expected return on pension scheme assets	117,296	97,633
Interest on pension scheme liabilities	(119,891)	(111,162)
Net return	<u>(2,595)</u>	<u>(13,529)</u>

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

	2006-2007	2005-2006
	£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)
Actuarial gain/(loss) recognised in the STRGL	<u>(287,348)</u>	<u>26,787</u>

3(g) Movement in Surplus/(Shortfall) during the year:

	2006-2007	2005-2006
	£000	£000
Surplus/(shortfall) in scheme in 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
Surplus/(shortfall) in scheme at the end of the year	<u>(534,865)</u>	<u>(256,607)</u>

3(h) History of experience gains and losses

	2006-2007	2005-2006	2004-2005	2003-2004
Difference between the expected and actual return on scheme assets:				
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 total 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%

4 Other Administration Costs

	2006-2007		2005-2006 (Restated)	
	£000	£000	£000	£000
Rentals under operating leases	1,826		1,862	
Interest Charges	3		1	
Utilities and Premises	5,427		6,999	
Transport Costs	4,005		3,425	
Supplies and Services	30,930		36,548	
Contracted Out Services	105,247		107,233	
Third Party Payments	35,601		38,445	
Chair's and Member's Expenses	1,655		2,039	
Other Administration Costs	39,804		43,306	
Auditors' Remuneration and Expenses	1,383		1,280	
		<u>225,881</u>		<u>241,138</u>
Non-cash items				
Notional Audit fee for Consolidated Accounts	69		69	
Depreciation	1,828		1,449	
Impairment of fixed assets	4		2	
Profit on disposal of fixed assets	(6)		(1)	
Loss on disposal of fixed assets	89		24	
Cost of Capital Charges	(7,527)		(8,311)	
Early Retirement Provision provided for in year	2,495		7,368	
Other Provisions provided for in year	1,321		323	
		<u>(1,727)</u>		<u>923</u>
Total		<u>224,154</u>		<u>242,061</u>

(05/06 restated to omit inter-board expenditure and re-catergorised provision costs)

5 Programme Costs

	2006-2007			2005-2006
	£000	£000	£000	£000
	Permanently employed		Others	Total
Wages and Salaries	4,735	4,063	672	4,486
Social Security Costs	316	316	0	268
Other Pension Costs	568	568	0	499
Sub total	<u>5,619</u>	<u>4,947</u>	<u>672</u>	<u>5,253</u>
Inward secondments	516	0	516	120
Total	<u>6,135</u>	<u>4,947</u>	<u>1,188</u>	<u>5,373</u>
Less recoveries in respect of outward secondments	0	0	0	0
Total	<u>6,135</u>	<u>4,947</u>	<u>1,188</u>	<u>5,373</u>
Current Expenditure	4,098	1,981	2,117	3,060
Total net costs	<u>10,233</u>	<u>6,928</u>	<u>3,305</u>	<u>8,433</u>

6(a) Administration Income excluding Operating Income to be Surrendered

	2006-2007		2005-2006 (Restated)	
	£000	£000	£000	£000
Rent receivable from minor occupiers of Probation Estate property:				
From within the Departmental Boundary	108		102	
From Other Government Departments	43		6	
From Local Authorities	0		27	
From External Tenants	69		103	
		220		238
Income from EU Sources: Direct contributions to Board activities		393		206
Income Receivable: From Other Government Departments		17,320		20,929
Miscellaneous Income		21,927		21,797
Total Administration Income excluding Operating Income to be surrendered		39,860		43,170

(05/06 restated to omit inter-board income)

6(b) Operating Income to be Surrendered

	2006-2007		2005-2006	
	£000	£000	£000	£000
Interest received:				
From Bank	1,862		1,778	
From Car Loans	111		145	
From Other Sources	113		87	
Total Operating Income to be surrendered		2,086		2,010
Total Administration Income		41,946		45,180
Programme income		9,929		8,172
Total Income Operating Cost Statement		51,875		53,352

7 Tangible fixed assets

	2006-2007		
	Office Machinery, Fixtures and Fittings and IT Equipment £000	Vehicles £000	Total £000
Cost or valuation			
At 1 April 2006	5,405	8,557	13,962
Additions	1,941	871	2,812
Net Transfers In/Out	0	12	12
Disposals	(780)	(712)	(1,492)
Revaluations	(13)	(19)	(32)
Indexation	(103)	68	(35)
Impairment	(16)	5	(11)
At 31 March 2007	6,434	8,782	15,216
Depreciation			
At 1 April 2006	2,919	4,359	7,278
Charged in year	845	983	1,828
Net Transfers In/Out	0	0	0
Disposals	(746)	(621)	(1,367)
Revaluations	(6)	(16)	(22)
Indexation	(50)	28	(22)
Impairment	(10)	3	(7)
At 31 March 2007	2,952	4,736	7,688
Net Book Value at 31 March 2007	3,482	4,046	7,528
Net Book Value at 31 March 2006	2,486	4,198	6,684
Asset Financing:			
Owned	3,482	4,046	7,528
Finance Lease	0	0	0
Net Book Value at 31 March 2007	3,482	4,046	7,528
Revaluation analysis			
Net change to Revaluation (excluding Impairment)	(60)	37	(23)
Impairment	(6)	2	(4)
Statement of Recognised Gains and Losses	(66)	39	(27)

Notes:

During 2006/07 a vehicle was donated to Gwent Probation Area. A valuation of 12k for this vehicle is disclosed as a Net Transfer In.

	2005-2006		
	Office Machinery, Fixtures and Fittings and IT Equipment £000	Vehicles £000	Total £000
Cost or valuation			
At 1 April 2005	4,403	7,834	12,237
Additions	1,495	1,211	2,706
Net Transfers In/Out	0	0	0
Disposals	(387)	(578)	(965)
Revaluations	(12)	0	(12)
Indexation	(87)	90	3
Impairment	(7)	0	(7)
At 31 March 2006	5,405	8,557	13,962
Depreciation			
At 1 April 2005	2,813	3,962	6,775
Charged in year	546	903	1,449
Net Transfers In/Out	0	0	0
Disposals	(376)	(550)	(926)
Revaluations	(1)	1	0
Indexation	(58)	43	(15)
Impairment	(5)	0	(5)
At 31 March 2006	2,919	4,359	7,278
Net Book Value at 31 March 2006	2,486	4,198	6,684
Net Book Value at 31 March 2005	1,590	3,872	5,462
Asset Financing:			
Owned	2,486	4,198	6,684
Finance Lease	0	0	0
Net Book Value at 31 March 2006	2,486	4,198	6,684
Revaluation analysis			
Net change to Revaluation (excluding Impairment)	(40)	46	6
Impairment	(2)	0	(2)
Statement of Recognised Gains and Losses	(42)	46	4

Notes:

There were no donated assets.

8 Debtors**8(a) Analysis by type**

	31 March 2007 £000	31 March 2006 £000
Amounts falling due within one year:		
Trade debtors	2,536	2,292
VAT	816	2,063
Staff debtors	933	1,261
Debtors due from other Probation Boards (excluding Training Consortia)	0	0
Debtors due from other Probation Boards for Training Consortia	0	0
Debtors due from the Prison Service (excluding private Prisons)	4,955	5,002
Debtors due from the National Probation Directorate	1,441	2,074
Debtors due from the Home Office	371	192
Debtors due from National Offenders Management	250	215
Other debtors	934	1,530
Prepayments and accrued income	3,522	3,547
	15,758	18,176

	31 March 2007 £000	31 March 2006 £000
Amounts falling due after more than one year:		
Trade debtors	0	0
Staff debtors	731	1,001
Other debtors	0	0
Prepayments and accrued Income	0	0
	731	1,001

8(b) Intra-Government Balances

	31 March 2007 £000	31 March 2006 £000
Balances with other central government bodies	1,757	1,486
Balances with local authorities	2,891	2,951
Balances with NHS Trusts	875	869
Balances with public corporations and trading funds	110	67
Subtotal: intra-government balances	5,633	5,373
Balances with bodies external to government	16,489	19,177
Total Debtors at 31 March 2007	22,122	24,550

9 Cash at bank and in hand

	31 March 2007 £000	31 March 2006 £000
Balance at 1 April	30,189	33,777
Net change in cash balances	14,048	(3,588)
Balance at 31 March	44,237	30,189
The following balances at 31 March are held at:		
Office of HM Paymaster General	0	0
Commercial banks and cash in hand	44,237	30,189
Balance at 31 March 2007	44,237	30,189

10 Creditors**10(a) Analysis by type**

	31 March 2007 £000	31 March 2006 £000
Amounts falling due within one year:		
VAT	183	58
Other taxation and social security	9,181	9,659
Trade creditors	11,835	23,359
Other creditors	4,027	5,273
Staff creditors	5,932	5,218
Bank overdraft	239	379
Creditors due to other Probation Boards (excluding Training Consortia)	0	0
Creditors due to other Probation Boards for Training Consortia	0	0
Creditors due to the Prison Service (excluding private prisons)	294	113
Creditors due to the National Probation Directorate	234	286
Creditors due to the Home Office	37	61
Creditors due to National Offenders Management	8	11
Unpaid pension contributions due to the pension scheme	4,683	4,422
Long Term Liabilities due within one year	0	14
Operating Income to be surrendered (Interest received)	2,086	2,010
Fixed asset accruals	216	77
	38,956	50,940

	31 March 2007 £000	31 March 2006 £000
Amounts falling due after more than one year:		
Staff creditors	0	0
Other creditors	36	27
	36	27

10(b) Intra-Government Balances

	31 March 2007 £000	31 March 2006 £000
Balances with other central government bodies	481	5,465
Balances with local authorities	4,815	4,188
Balances with NHS Trusts	5,553	563
Balances with public corporations and trading funds	55	10
Subtotal: intra-government balances	10,904	10,226
Balances with bodies external to government	38,991	50,967
Total Creditors at 31 March 2007	49,895	61,193

11 Provisions for liabilities and charges

	31 March 2007		
	Early Retirement and Pension Commitments Added Years	Other Provisions	Total
	£000	£000	£000
Balance at 1 April 2006	37,121	519	37,640
Provided in the year	2,547	1,333	3,880
Provisions not required written back	(52)	(12)	(64)
Provisions utilised in the year	(2,150)	(285)	(2,435)
Balance at 31 March 2007	37,466	1,555	39,021

	31 March 2006		
	Early Retirement and Pension Commitments Added Years	Other Provisions	Total
	£000	£000	£000
Balance at 1 April 2005	31,566	394	31,960
Provided in the year	3,717	371	4,088
Provisions not required written back	(29)	(48)	(77)
Provisions utilised in the year	(1,814)	(198)	(2,012)
2005/06 impact of change in discount rate from 3.5% to 2.2%	3,681	0	3,681
Balance at 31 March 2006	37,121	519	37,640

Early Retirement and Pension Commitments

The 42 Probation Boards meet the additional costs of benefits beyond the normal Local Government Pension Scheme (LGPS) benefits in respect of employees who retire early by paying the required amounts annually to the LGPS over the period between early departure and normal retirement date. The Probation Boards provide for this in full when the early retirement programme becomes binding on the Boards by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

Other

Provisions have been recognised within the accounts where:

- (i) The 42 Probation Boards have a present obligation (legal or constructive) as a result of a past event;
- (ii) It is probable that a transfer of economic benefits will be required to settle the obligation;
- (iii) A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

The Other Provisions relate to provisions arising from: job evaluation, legal costs, employment tribunals, superannuation contributions, restructuring, insurance and programme funding.

12 General Fund

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	(294,221)	(319,037)
Financing activities:		
Net NPD Financing received in year (excluding Training Consortia)	700,860	617,241
Training Consortia financing received from NPD in the capacity as Lead Board	17,598	22,946
Training Consortia financing from NPD received by the Area Board	22,332	29,603
Training Consortia financing received from the Boards within their consortia	84	124
Training Consortia financing transferred from the Lead Board to the boards within their consortia	(989)	(1,388)
Training Consortia financing received from their Lead Board	970	1,369
Training Consortia financing transferred to their Lead Board	(74)	(203)
Training Consortia financing received by the Board from another non-lead Board	27	0
Training Consortia financing transferred from the Board to another non-lead Board	(10)	0
Recharges by NPD for centrally provided services	107,302	108,764
Increase/(decrease) in Financing Debtors	0	0
(Increase)/decrease in Financing Creditors	0	13
Net Transfers from Operating Activities:		
Net Operating Cost for the year	(807,074)	(770,236)
Operating Income to be surrendered (Interest received)	(2,086)	(2,010)
Non-Cash Charges:		
Cost of Capital	(7,527)	(8,311)
Auditors' remuneration	69	69
Transfer from Revaluation Reserve	0	48
Actuarial gains and losses (STRGL)	(287,348)	26,787
Balance at 31 March 2007	<u>(550,087)</u>	<u>(294,221)</u>

13 Reserves**13(a) Revaluation Reserve**

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

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	204	246
Arising on revaluations during the year (net)	(23)	6
Transferred to General Fund	0	(48)
Balance at 31 March 2007	<u>181</u>	<u>204</u>

13(b) Donated Asset Reserve

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	0	0
Additions during the year	12	0
Release to the Operating Cost Statement	0	0
Balance at 31 March 2007	<u>12</u>	<u>0</u>

The donated asset reserve reflects the net book value of assets donated to the 42 Probation Boards. During the year Gwent Probation Board was in receipt of a donated asset.

14 Notes to the Cash Flow Statement**14(a) Reconciliation of operating cost to operating cash flows**

	2006-2007	2005-2006
	£000	(Restated)
		£000
Net operating cost	(807,074)	(770,236)
Adjustments for non-cash transactions	(1,727)	923
(Increase)/Decrease in Debtors	2,428	(3,096)
Increase/(Decrease) in Creditors	(11,513)	11,111
Adjustments for pension funding	(9,090)	(14,113)
Use of provisions	(2,435)	(2,012)
Net cash outflow from operating activities	(829,411)	(777,423)

(05/06 restated to identify the release of provisions and disclose outflows as negative values)

14(b) Analysis of capital expenditure and financial investment

	2006-2007	2005-2006
	£000	£000
Tangible fixed assets additions	(2,812)	(2,706)
Plus Opening Balance for Fixed Asset Accruals	(77)	(179)
Minus Closing Balance for Fixed Asset Accruals	216	77
Minus Proceeds of Disposal of Fixed Assets	42	18
Net cash outflow from investing activities	(2,631)	(2,790)

14(c) Analysis of financing

	2006-2007	2005-2006
	£000	£000
Net NPD Financing received in year (excluding Training Consortia)	700,860	617,241
Training Consortia financing received by the Lead Board from NPD	17,598	22,946
Training Consortia financing received by the non-lead Board from NPD	22,332	29,603
Training Consortia financing received from the boards within their consortia	84	124
Training Consortia financing transferred from the Lead Board to the boards within their consortia	(989)	(1,388)
Training Consortia financing received from their Lead Board	970	1,369
Training Consortia financing transferred to their Lead Board	(74)	(203)
Training Consortia financing received by the Board from another non-lead board	27	0
Training Consortia financing transferred from the Board to another non-lead board	(10)	0
Recharges by NPD for centrally provided services	107,302	108,764
Consolidated Fund Extra Receipts received in prior year surrendered (Interest Received)	(2,010)	(1,831)
Net financing	846,090	776,625

15 Capital commitments

	31 March 2007 £000	31 March 2006 £000
Capital commitments at 31 March for which no provision has been made:		
Committed	55	13
Authorised but not contracted	33	383
Total	88	396

16 Commitments under leases**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 the which the lease expires.

Obligations under operating leases comprise:

	2006-2007 £000	2005-2006 £000
Other:		
Expiry within 1 year	422	420
Expiry after 1 year but not more than 5 years	1,096	1,077
Expiry thereafter	59	62
Total	1,577	1,559

17 Other financial commitments

Devon & Cornwall Board has 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 Board has entered into a non-cancellable contract (which is not an operating lease) for The Home Computing Initiative. The payment of this sum is offset by lower salary cost through a salary sacrifice scheme.

	2006-2007 £000	2005-2006 £000
Expiry within 1 year	276	0
Expiry within 2 to 5 years	219	655
Expiry thereafter	0	0
Total	495	655

18 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the 42 Probation Boards are 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 applies. The Boards have very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the 42 Probation Boards in undertaking their 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 this analysis.

19 Contingent liabilities

At the Balance sheet date, 5 Probation Boards had contingent liabilities. They are: Lancashire, Northamptonshire, Nottinghamshire, Warwickshire and Hertfordshire.

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 1st April 2006.

Nottinghamshire: A number of staff following grievance procedures may result in compensation or claims to Employment Tribunals.

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.

Hertfordshire: Claims for injuries to staff have been indicated. Settlement is estimated not to be more than £20,000.

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

There are no contingent liabilities that are not required to be disclosed under FRS12 to be included in this note for parliamentary reporting and accountability purposes.

21 Losses and special payments

	2006-2007		2005-2006	
	Number of Cases	Total Value £000	Number of Cases	Total Value £000
Losses Statement				
<i>Details of cases over £2,000</i>				
Cash losses	2	17	10	29
Claims abandoned	2	17	4	106
Administrative write-offs	8	61	5	23
Fruitless payments	0	0	1	5
Stores losses	0	0	0	0
Special payments	29	162	32	105
Total	41	257	52	268
<i>Details of cases over £100,000</i>				
Cash losses	0	0	0	0
Claims abandoned	0	0	0	0
Administrative write-offs	0	0	0	0
Fruitless payments	0	0	0	0
Stores losses	0	0	0	0
Special payments	0	0	0	0
Total	0	0	0	0

22 Related party transactions

The Home Office is regarded as a related party. During the year 42 Probation Boards had various material transactions with the Home Office. Additionally, Probation Boards had transactions with other Probation Boards, other government bodies and third party organisations.

The main transactions relate to provision of staff for long term secondment within the Prison Service. Some Probation Boards have strong links to their Local Authorities who may provide varying levels of support services e.g. finance facilities or personnel/payroll services. Several inter-board transactions relate to Training Consortia and comprise of recharges and passing on grants. Other Related Party Transactions can be seen in locally published accounts.

23 Third-party assets

The following Probation Boards administer a trust fund. They are Essex, Humberside, Greater Manchester, North Wales, Northumbria, Staffordshire, Warwickshire and West Mercia. The following Probation Boards administer an amenity fund. They are Kent and Suffolk. Essex's trust fund balance at 31 December 2006 was £123k and is disclosed within the Local Notes of their accounts. This balance is not included in the figures set out below.

	31 March 2007	31 March 2006
	£000	£000
Balance at 1 April	90	64
Funds paid in during the year	71	128
Funds paid out during the year	(82)	(102)
Balance at 31 March 2007	<u>79</u>	<u>90</u>

24 Post balance sheet events

With effect from 9th May 2007, responsibility for Probation Services was transferred from the Home Office to the newly created Ministry of Justice. On 4th June 2007, NOMs announced the process for boards to apply for trust status from April 2008. Six boards have been accepted as Phase I Trusts.

Consolidated Accounts of Local Probation Boards in England and Wales

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SCHEDULE 1, PARAGRAPH 17(4) OF THE CRIMINAL JUSTICE AND COURT SERVICE ACT 2000, AND SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000.

HM Treasury directs that consolidated accounts of the local probation boards in England and Wales shall be prepared by the Secretary of State for the Home Department in respect of the financial year ended 31 March 2007 and subsequent financial years.

The consolidated accounts shall be prepared so as:

- to give a true and fair view of the state of affairs of the National Probation Service as at the financial year-end and of the net resource outturn, recognised gains and losses and cash flows for the financial year and have been properly prepared in accordance with the Criminal Justice and Court services Act 2000;
- to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

These consolidated accounts shall be prepared from the audited accounts of the local probation boards to which they relate and shall comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (“the FReM”) issued by HM Treasury and which is in force for the relevant financial year. A note on the application of the FReM to the consolidated accounts of the Local Probation Boards is attached at Annex B.

Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. Any material departure from the FReM should be discussed in the first instance with the Treasury.

The consolidated accounts shall be transmitted to the Comptroller and Auditor General for the purpose of his audit examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the agreed administrative deadline.

This accounts direction supersedes all previous issues.

Ian Carruthers

Director, Government Reporting, HM Treasury

ANNEX B

APPLICATION OF THE GOVERNMENT FINANCIAL REPORTING MANUAL ISSUED BY HM TREASURY TO THE CONSOLIDATED ACCOUNTS OF LOCAL PROBATION BOARDS

1. There is no requirement to prepare a Statement of Parliamentary Supply or a Statement of Net Operating Costs by Departmental Aims and Objectives.
2. Monies received as grant-in-aid should be treated as financing and not as income.
3. The salary and pension entitlements of key managers should be appropriately disclosed.
4. Items may be added to or deleted from the above list only with the agreement of HM Treasury.

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