

# **The Government Actuary's Department**

## **Resource Accounts 2003 – 04**

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# The Government Actuary's Department

**Resource Accounts  
2003 – 04  
(For the Year Ended 31 March 2004)**

*Ordered by the House of Commons to be printed  
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**Resource Accounts: The Government Actuary's Department****Foreword****Introduction**

These Resource Accounts have been prepared and issued by Government Actuary's Department (GAD). These Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The Accounts demonstrate the resources that have been used by GAD in delivering GAD's objectives. These Resource Accounts have been prepared in accordance with the guidance set out in HM Treasury's Resource Accounting Manual (RAM) for 2003-2004.

**The Aim and Objectives of the Department**

This document contains the Accounts of GAD for the year 1 April 2003 to 31 March 2004.

The aim of the Department is

*To provide mainly public sector clients with independent, professional actuarial advice of the highest quality and at a reasonable cost.*

To achieve our aim, the Department works to:

- Objective 1** Provide the actuarial advice to Government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main public service pension schemes) and other employee benefits;
- Objective 2** Provide the social security projections, demographic analyses and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy and to provide the actuarial advice necessary for the regulation and supervision of financial institutions overseas.

**Principal Activities**

The Department's provision of actuarial advice falls into four main areas: -

- a. Occupational pensions - A reasonable standard of living for the nation's citizens depends on an effective system of occupational and personal pensions provision. The sums involved are large and have an important bearing on the national economy. Public sector pension costs are a major item of expenditure and represent a significant factor in privatisations and in public/private partnerships and in contracting-out of services. Private pension schemes are governed by complex legislation and regulation, with a high level of actuarial involvement. The Department for Work and Pensions (DWP), the Treasury, the Inland Revenue, the Occupational Pensions Regulatory Authority, the Pensions Ombudsman, the Pensions Compensation Board, and virtually all other Government Departments and many public sector bodies call on GAD for advice on strategic and policy issues relating to pensions, advice on supervision of private pension schemes, individual cases and assistance on all matters relating to public sector pensions.

- b. Social Insurance - A fundamental aspect of the modern state and economy. From its inception GAD has played a major role in establishing sound financial disciplines in this major area of public expenditure. The Government Actuary has statutory obligations to report to Parliament with a comprehensive range of independent reports on the financial impact, both in the short and long-term, of the social security legislation. Under the Social Security Administration Act 1992 there is a requirement for the Government Actuary to prepare a report to accompany any Order concerning the annual uprating of benefits, or changes in contributions, laid before Parliament by the Secretary of State for Work and Pensions. Legislation also demands a five-yearly report on the long-term financial prospects for any National Insurance Fund. A separate report to Parliament is expected on the financial impact of any major new social security legislation, and on the terms for occupational and personal pension schemes contracting out of the State Second Pension.
- c. Demography and Statistics - Advice from GAD depends critically on the reliable collection of past and present data and projection of probable future trends. The Demography and Statistics section is the focus of this work, manifested in a comprehensive range of services, including national life tables and regular official national population projections.
- d. Insurance Supervision Overseas – The Department continues to advise overseas governments on insurance supervision.

### Other Reports

GAD financial targets are published in its 2004 Spring Departmental Report (Cm 6223) along with future expenditure plans covering 2004-05 and 2005-06. This report contains detail about GAD that is additional to that shown in these accounts.

GAD's departmental report is one of a series of departmental reports along with the following HM Treasury publications

- Main Estimates 2003-04;
- Supplementary Budget information 2004-05;
- Public Expenditure Statistical Analyses 2004-05 which present the overall Government expenditure outturn figures and plans for 1998-99 to 2005-06
- Spending Review 2004 which presents Government Spending plans for 2005-06 to 2007-08

Readers may also wish to refer to the Corporate Brochure, which contain more information about the Department. This document is produced by GAD for our clients and can be found on the GAD website under:

[www.gad.gov.uk/Publications/General.htm](http://www.gad.gov.uk/Publications/General.htm)

### Pension Liabilities

The pension liabilities of the Department are discharged through the Principal Civil Service Pension Scheme (PCSPS) administered by the Cabinet Office. See also notes 1.11 and 1.12 to these accounts.

## Operating and Financial Review:

### Operating Review

Once again, it has been a busy year for the Department with demand for our services continuing to develop. We achieved growth across all fee earning areas of activity and have taken on more than 12% new client accounts in year. We have completed major pieces of work in our pensions, social security and demographic teams as well as undertaking many smaller items of pensions transfer work. We continue to work for overseas clients on insurance supervision as required. We have successfully bid and won in competitive tenders and we believe that we have offered our clients value for money during the year and that our services remain competitively priced.

This year we generated more than 54% of our income from other government departments, compared to 60% in 2002-03, with the balance coming from the wider public sector, the private sector and overseas clients. This is evidence of a modernising, forward-looking Department gaining business in areas beyond its traditional boundaries. More qualified (chargeable) staff in the Department and a modest fee increase saw our overall fee income position increased over that reported for 2002-2003 by 3.3%, this was matched by increased expenditure in year.

Public Sector Pensions remains GAD's predominant area of activity. GAD advised most of the main public service pension schemes, gave general pensions policy advice to H M Treasury and advised government departments on issues specific to them. Our actuaries advised the trustees and sponsoring employers of a number of funded pension schemes, with advice ranging from completing actuarial valuations to investment strategy and the management and communication of structural changes to schemes. We advised extensively on the pensions aspects of PPP and PFI, working with contracting authorities across the public service on specific transactions and helping HM Treasury formulate policy on pensions protections for affected employees.

GAD continued its close relationship with the Department for Work and Pensions and the Inland Revenue on all financial aspects of the National Insurance Fund benefits and contributions. The Department is also responsible for the official population projections of the United Kingdom.

Further functions performed included advice to the Department for Constitutional Affairs on the assessment of damages in personal injury and fatal accident cases and to the Employment Tribunals Service on the assessment of loss of pension rights on unfair dismissal. GAD also provided regular certification of the randomness of the monthly premium bond output (ERNIE) and assisted in the evaluation of the randomness of the new number generator, ERNIE4.

GAD's international activity has increased again this year. We are continuing our working relationship with a number of overseas governments.

There were some initial problems as we moved to new premises and implemented a new integrated accounting system. These are now behind us.

More specific details of the operational activities and performance of GAD are provided elsewhere in this report (Principal Activities) and also in the Annual Report and our Corporate Brochure.

### Morris Review of the Actuarial Profession

The role of the Government Actuary's Department forms part of the independent review of the UK actuarial profession that the government asked Sir Derek Morris to conduct in March 2004, in response to Lord Penrose's report of the Equitable Life inquiry.

On 8th March 2004, in response to Lord Penrose's report of the Equitable Life inquiry, Ruth Kelly MP, the then Financial Secretary to the Treasury, announced an independent review into the actuarial profession, with a particular focus on considering how best to modernise the profession and see that high standards are delivered in a more open, challenging and accountable professional culture. The review is being conducted by Sir Derek Morris, the former Chairman of the Competition Commission. The review commenced on 1st May 2004 and is due to report to government by Spring 2005.

The terms of reference of the review are to:

‘Consider what professional and/or other regulatory framework would best promote recognised, high-quality and continuously developing actuarial standards, openness in the application of actuarial skills, transparency in the professional conduct of actuaries, accountability for their actions and an open and competitive market for actuarial advice in the UK;

In doing so:

- Take into account developments in the actuarial profession, in regulation, and in the financial services market, in the UK and abroad;
- Examine the roles of actuaries in the financial services sector, including in providing actuarial opinions in relation to audited accounts;
- Build on the work of recent government and regulatory initiatives;
- Examine the relationship between the Government Actuary's Department and the actuarial profession and with other parts of government.

Recommend a framework that will be independent in representing the public and consumer interest, and be accountable, flexible, transparent, and no more burdensome or restrictive than is clearly justified.

Make recommendations on the future role of the Government Actuary, the functions of his Department and its future institutional status.’

Although the review was announced by the government in response to Lord Penrose's inquiry into Equitable Life, the review's terms of reference are broad and include the role of actuaries working outside the life insurance industry, for example in areas such as pensions, general insurance and fund management.

On 28th June 2004, Sir Derek published a consultation document seeking views from all interested parties on his review of the actuarial profession.

The closing date for responses to the consultation was 10th September 2004. Sir Derek will publish an interim assessment in the autumn, in advance of his final report to government next spring. The Government Actuary has responded to this consultation document, making separate submissions in relation to that part of the review relating to the roles and responsibilities of the Government Actuary's Department, and that part relating to the actuarial profession more widely. Full text can be found on the GAD website under:

[www.gad.gov.uk/Publications/General.htm](http://www.gad.gov.uk/Publications/General.htm)



**Financial Review**

Our advice was in great demand during the year. We were again adversely affected towards the end of the accounting year by uncertainty over which of our clients would be paying off their debts during the accounting year. This unpredictability of cash flow forced us to reduce expenditure in the last few months which led to a lower than predicted Net Resource Requirement.

Pressure on our finance function was further increased by the implementation of a new financial accounting, reporting and workflow solution, which went live in April 2003. The changeover delayed the completion of our accounts for last year but we are now back on track and starting to see the benefits from the new system in improved invoicing and in the preparation of the schedules for this set of accounts.

Our fee income increased from £5.9m in 2001-02 to £6.7m in 2002-03 and now to £6.9m in 2003-04.

The introduction of a Client Liaison team has greatly improved our debtor balances since the year-end, though we still find that some of our clients, including UK government clients, are reluctant to pay within the 30-day payment terms and this has caused problems in forecasting and managing our cash flow.

Our main capital expense covered the fit-out costs of our new building which amounted to over £1.3 million. The balance related to the replacement of existing hardware and the purchase of new office systems. With a three year depreciation policy on desktop computer systems, the charge for depreciation has increased, reflecting the speed with which these items are replaced.

Staff costs are the largest element of our budget, accounting for almost 68% of total expenditure, with the next most significant item being accommodation charges, which accounted for 19% of total expenditure.

The summary table below includes data taken from our accounting schedules and notes contained in these resource accounts:

**Table 1** Income and Expenditure on a Resource Basis for the year ended  
31 March 2004

	<b>2003-04</b>	<b>2002-03</b>
	£000	£000
<b>Expenditure</b>		
Staff costs	5,686	5,175
General administrative costs	2,294	1,404
Movements in work in progress	(126)	110
Non cash costs	417	306
<b>Total Expenditure</b>	<b>8,271</b>	<b>6,995</b>
<b>Income</b>		
Fees and charges to other government departments	3,325	3,448
Fees and charges to National Insurance Fund	467	667
Fees and charges to the wider public sector and others	3,125	2,599
<b>Total Income</b>	<b>6,917</b>	<b>6,714</b>
<b>Balance of expenditure over income</b>	<b>1,354</b>	<b>281</b>
Purchase of fixed assets	1,515	193
Non cash items	(417)	(306)
Adjustment for changes in working capital other than cash	(356)	109
Use of provision	8	8
<b>Net Cash Requirement for the year</b>	<b>2,104</b>	<b>285</b>

**Minister**

GAD is one of the Chancellor's Departments, and the Financial Secretary to the Treasury takes ministerial responsibility for the Department. During the financial year, the post of Financial Secretary was held by Ruth Kelly MP. No remuneration is payable by the Department to the minister or to special advisers.

**Permanent Head of the Department and Management Board**

The position of Government Actuary, the permanent head of the Department, is held by Chris Daykin CB, MA, FIA. The following other members of staff comprised the Management Board during the year:

Grant Ballantine BSc, FFA	Directing Actuary (Public Sector Pensions)
Andrew Young BSc, FIA	Directing Actuary (Social Insurance, Pensions and Demography)
Kim Clegg BA, ACMA	Director of Finance & Strategy

Please note that from 1 April 2004, Andrew Johnston replaced Grant Ballantine as a Board Member and Director of Personnel Simon Bancroft-Rimmer joined the Management Board as a permanent member.

**Appointment of the Permanent Head of the Department and the Management Board**

The permanent head of the Department was appointed by the Head of the Home Civil Service in 1989. The appointment was made under the general rules for Senior Civil Service Appointment, and the appointment may be terminated by reference to the Civil Service Management Code. Senior staff members holding the posts of Directing Actuary, are appointed through promotion routines overseen by the Civil Service Commissioners and they would automatically have membership of the Management Board. The Director of Finance and Strategy was appointed to the department through an open recruitment competition.

**Governance**

There is a structure of committees and reference groups within GAD reporting to the Management Board. These all have clear terms of reference. Information about their duties and responsibilities are given to all members of staff.

**Audit Committee**

The Audit Committee is chaired by David Parsons who took over from Andrew Young in September 2003. Mr Parsons is a non-executive member recruited from the Accounting and Finance team of the Home Office. Andrew Young remained an ordinary committee member along with Grant Ballantine and Kim Clegg. From 1 April 2004 Grant Ballantine was replaced by Andrew Johnston. The chair of the internal committee relating to finance, Ian Boonin, from within the department, also now attends. The Government Actuary, the external auditors (NAO) and the internal auditor attend by invitation. The committee's terms of reference clearly point to the support this body provides to the Accounting Officer throughout the year. The committee meets three times a year.

**Board Members Remuneration**

None of the Senior Staff listed above are members of the Senior Civil Service (SCS). The pay of the Government Actuary (GA) is determined on an annual basis, under agreed arrangements with the Permanent Secretary of HM Treasury, including informal consultation with some of GAD's major clients. The determination of the pay of the remaining Senior Staff has been formally delegated to the GA, and is settled through the annual pay negotiation arrangements for GAD staff. Further details of remuneration are given in the notes to the accounts at 2c.

**Equal Opportunities and Diversity**

GAD is fully committed to providing equal opportunity for all staff, regardless of colour, nationality, ethnic origin, religion, gender, marital status or trade union activities.

Our aim is that the Department should reflect a diverse, modern society at all levels and to both bring in and bring on talent. During the year the Department recruited a trainer who is also tasked to improve diversity awareness amongst our staff. Throughout the year, GAD management team also entered into regular dialogue with the staff side of the recognised union on related staff matters.

**Disabled Persons**

GAD is fully committed to providing equal opportunities for all staff, and disability is not a bar to recruitment or to advancement in the Department. To further this policy the Department promotes the observance of good practice in the areas of employment particularly relevant to disabled people.

**Information for Staff and Communications Policy**

GAD keeps all members of staff informed of changes in and for the Department. We operate an intranet site that is regularly updated with policy and guidance. Regular email updates of Office Notices and other general departmental information are also used. A series of working groups operate under the auspices of the Management Board to encourage direct staff input into departmental decision-making.

**Training and Development**

GAD has always recognised that people are the most important resource to manage. The Department successfully retained the Investors in People (IiP) award in 2002 and is seeking re-accreditation in 2004. The recruitment of an in-house trainer will help deliver more management training courses.

GAD also sponsors a number of professional exams (including actuarial and accountancy disciplines) and operates a staff-mentoring scheme for trainees.

### **Payment of Suppliers**

The Department is a member of the Better Payment Practice Code. The policy is that all bills should be paid in accordance with credit terms, or where no such terms exist, within 30 days of the receipt of goods or services, or the presentation of a valid invoice, whichever is the later. The calculation of payment performance for 2003-2004 has been based on continuous monitoring of payments since the start of the year. On this basis, as reported in our Departmental Report, just under 70% of payments met the policy criteria. No interest payments were made to suppliers under the Late Payment of Commercial Debts (Interest) Act 1998.

The prompt payment statistic is lower this year due to a change in accounting system causing some delays in payment processing. New procedures are being put in place in 2004-05 to ensure that our invoices are tracked more efficiently from the time they enter the office until they are paid.

### **Auditor**

The Comptroller and Auditor General is the external auditor for GAD's accounts.

Chris Daykin CB MA FIA,  
Government Actuary  
Accounting Officer

9 November 2004

**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.

The Treasury has appointed the Permanent Head 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 Resource Accounting Manual prepared by 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 Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
- d) prepare the accounts on a going concern basis.

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

Chris Daykin CB MA FIA,  
Government Actuary  
Accounting Officer

9 November 2004

## Statement on Internal Control

### 1. Scope of Responsibility

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

Although GAD is a non-ministerial department, regular contact is maintained with Ruth Kelly MP (Financial Secretary to the Treasury) and she is made aware of any issues the department faces relating to the management of risk.

### 2. The purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in Government Actuary's Department for the year ended 31 March 2004 and up to the date of approval of the accounts, and accords with Treasury guidance.

### 3. Capacity to handle risk

All members of the senior management team are aware of the corporate risk matrix, reviewed at management board meetings. I expect all members of my senior management team to accept responsibility for management of risks in their areas and ensure that information on major risks is communicated to staff in an appropriate and timely manner.

I require all members of my senior management team to identify training needs and guidance required by staff members.

### 4. The risk and control framework

The Department has established the following processes:

- The Management Board generally meets once a month to consider the plans and overall strategic direction of the Department.
- Strategic aims are considered during an annual board away-day session and the annual Business Plan with clear aims, objectives and deliverables is developed by means of a bottom-up approach. In this way we ensure that each member of staff can see a direct correlation between their job description and the business plan for the coming year.
- Detailed budgets for expenditure and targets for income are identified during the corporate planning process and then monitored each month through a series of financial reports presented to the Management Board.
- A risk appraisal matrix is considered at each Management Board meeting. This is a five-part matrix covering departmental functions of client liaison, professional advice, finances, human resources and infrastructure. Each has a risk manager who presents information on critical risks to the board members, these are discussed and required actions are agreed by the board and noted in the board minutes. They are also copied to the audit teams.
- All new infrastructure projects require a project impact assessment as part of the initiation process and follow the OGC Gateway review process.

In 2003-04 the Management Board carried out a major review of committees and groups supporting the Management Board. As a result, two new committees have now been formed to discuss operational issues. The two committees (Establishments and Finance & Strategy) each nominate a risk manager and these two

individuals, together with nominated risk managers from the existing Technical Committee and Business Systems Group (formerly Computer Policy Committee), form a Risk Assessment Group. In this way, the risks in all areas of work will be considered and areas for concern reported to the relevant operational committees and thence to the Management Board.

## 5. Review of effectiveness

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

As noted above, the Management Board regularly reviews risks. Responsibilities for management of risk and risk review are allocated in this forum, though information on risks and their management will now be supplied by other groups and committees in GAD. In addition, the effectiveness of the system of internal control is considered in the following ways –

- An Audit Committee operates which feeds information to the Management Board. This includes a non-executive member from the Home Office. The Audit Committee reviews the priorities for risk assessment in the department and agrees a timetable for the Internal Auditor who acts independently in providing advice to the Management Board and to the Accounting Officer.
- The Internal Auditor also makes direct recommendations to representatives on the Management Board if he feels that additional audit activity is required on specific topics.
- Government Actuary's Department Risk Assessment Group which will meet regularly to discuss risks across the Department
- Senior Management team members also contribute to the profession and keep in touch with the latest professional developments by working on committees and working parties for the Institute of Actuaries. Up-to date knowledge of the latest professional developments is shared through the Technical Committee, which reports to the Management Board.
- Two non-executive members are being appointed to the Management Board, in line with best practice, and with particular regard to the increasing transparency and rigour of the risk management process.

(Signed) .....

Chris Daykin CB MA FIA,  
Government Actuary,  
Accounting Officer

9 November 2004



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

I certify that I have audited the financial statements on pages 17 to 38 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 to 25.

**Respective responsibilities of the Accounting Officer and Auditor**

As described on page 12, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, 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.

I review whether the statement on pages 13 to 14 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

**Basis of audit opinion**

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Government Actuary's Department at 31 March 2004 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn  
Comptroller and Auditor General

National Audit Office  
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Victoria  
London SW1W 9SP

Date: 18 November 2004

**SCHEDULE 1**  
**Summary of Resource Outturn**

	2003 - 2004						2002-03	
	Estimate			Outturn			<i>Net Total Outturn Compared with the Estimated Saving</i>	<i>Prior Year Outturn</i>
	<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>		
	1	2	3	4	5	6		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Request for Resources 1	8,600	6,975	1,625	8,271	6,917	1,354	271	281
<b>Total Resources</b>	8,600	6,975	1,625	8,271	6,917	1,354	271	281
Non-operating Cost Appropriated in Aid	-	-	-	-	-	-	-	-
<b>Net Cash Requirement</b>			<b>2,191</b>			<b>2,104</b>	<b>87</b>	<b>285</b>
<b>Reconciliation of resources to cash requirement</b>	<i>Note</i>		£'000			£'000	£'000	£'000
<b>Net Total Resources</b>			<b>1,625</b>			<b>1,354</b>	271	<b>281</b>
<b>Capital:</b>								
Acquisition of fixed assets	8,9		<b>1,538</b>			<b>1,515</b>	23	<b>193</b>
<b>Accruals adjustments:</b>								
Non-cash items	3		<b>( 348)</b>			<b>( 417)</b>	69	<b>( 306)</b>
Changes in working capital other than cash	10		<b>( 632)</b>			<b>( 356)</b>	( 276)	<b>109</b>
Use of provision	15		<b>8</b>			<b>8</b>	-	<b>8</b>
<b>Net Cash Requirement (Schedule 4)</b>			<b>2,191</b>			<b>2,104</b>	<b>87</b>	<b>285</b>

For the year ended 31 March 2004

**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

	2003-2004 Forecast		2003-2004 Outturn	
	<u>Income</u>	<u>Receipts</u>	<u>Income</u>	<u>Receipts</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>Non-operating Income</b> <b>(not classified as Appropriated in Aid)</b>				
Other income payable to the Consolidated Fund	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Total Resource requirement outturn was closely in line with the estimate as were the Net Cash requirement and outturn. The small variances are explained in greater detail in the Financial Review on Page 7 of this document but in summary these differences relate to marginally lower spending than predicted due to cash constraints in year.

The notes on pages 23 to 38 form part of these accounts.

**SCHEDULE 2****Operating Cost Statement**

For the year ended 31 March 2004

	<i>Note</i>	2003-2004		2002-2003	
		£'000	£'000	£'000	£'000
<b>Administration Costs</b>					
Staff Costs	2	5,686		5,175	
Other administration costs	3	2,711		1,710	
Movement in Work in Progress	10	(126)		110	
<b>Gross Administration Costs</b>		<b>8,271</b>		<b>6,995</b>	
Operating Income	4	(6,917)		(6,714)	
<b>Net Administration Costs</b>			<b>1,354</b>		<b>281</b>
<b>Net operating cost</b>			<b>1,354</b>		<b>281</b>
<b>Net resource outturn</b>			<b>1,354</b>		<b>281</b>

No statement of recognised gains and losses has been prepared as there are no material gains and losses, other than the net operating income/operating cost for the year.

The notes on pages 23 to 38 form part of these accounts.

**SCHEDULE 3****Balance Sheet**

For the year ended 31 March 2004

	Note	31 March 2004		31 March 2003	
		£'000	£'000	£'000	£'000
<b>Fixed Assets</b>					
Tangible assets	8	1,571		247	
Intangible assets	9	139		215	
			1,710		462
<b>Current Assets</b>					
Work-in-Progress	11	596		470	
Debtors	12	2,325		2,173	
Cash at bank and in hand	13	87		748	
		3,008		3,391	
<b>Creditors (due within one year)</b>	14	(1,130)		(1,157)	
<b>Net Current Assets</b>			1,878		2,234
<b>Total Assets less Current Liabilities</b>			3,588		2,696
<b>Provisions for Liabilities and Charges</b>	15		(22)		(27)
			<b>3,566</b>		<b>2,669</b>
<b>Taxpayers' Equity</b>					
General fund	18		3,561		2,664
Revaluation reserve	16		5		5
			<b>3,566</b>		<b>2,669</b>

(Signed) .....

Chris Daykin CB MA FIA,  
Government Actuary,  
Accounting Officer

9 November 2004

The notes on pages 23 to 38 form part of these accounts.

**SCHEDULE 4****Cash Flow Statement**

For the year ended 31 March 2004

	<i>Note</i>	<u>2003-2004</u>	<u>2002-2003</u>
		£'000	£'000
Net cash inflow/(outflow) from operating activities		(589)	(92)
Capital expenditure and financial investment		(1,515)	(193)
Payments made to the Consolidated Fund		(748)	-
<b>Financing</b>		<u>2,191</u>	<u>876</u>
<b>Increase/(Decrease) in cash in the period</b>	<i>13</i>	<u>(661)</u>	<u>591</u>

*Notes to the Cash Flow Statement***Note i: Reconciliation of operating cost to operating cash flows**

<b>Net Operating Cost</b>		<b>1,354</b>	<b>281</b>
Adjust for non-cash transactions	<i>3</i>	(417)	(306)
Adjust for movements in working capital other than cash	<i>10</i>	(356)	109
Adjust for transfer from provision for early retirement	<i>15</i>	8	8
<b>Net cash (inflow)/outflow from operating activities</b>		<u><b>589</b></u>	<u><b>92</b></u>

**Note ii: Analysis of Capital Expenditure and Financial Investment**

Tangible Fixed asset additions	<i>8</i>	1,469	81
Intangible Fixed asset additions	<i>9</i>	46	112
<b>Net cash outflow for capital expenditure and financial investment</b>		<u><b>1,515</b></u>	<u><b>193</b></u>

**Note iii: Analysis of Financing and reconciliation to the net cash requirement**

From the Consolidated Fund (Supply): prior year		-	220
From the Consolidated Fund (Supply): current year		2,191	656
<b>Net Financing</b>		<u><b>2,191</b></u>	<u><b>876</b></u>
<b>(Increase)/Decrease in Cash</b>		<u><b>661</b></u>	<u><b>(591)</b></u>
Net Cash flows other than financing		2,852	285
<b>Adjust for payments and receipts not related to Supply:</b>			
Amounts due to the Consolidated Fund - received in a prior year and paid over		(748)	-
<b>Net Cash Requirement for the year (Schedule 1)</b>		<u><u><b>2,104</b></u></u>	<u><u><b>285</b></u></u>

The notes on pages 23 to 38 form part of these accounts.

**SCHEDULE 5****Resources by Departmental Aim and Objectives**

for the year ended 31 March 2004

	<i>Note</i>	2003-2004			2002-2003		
		<b>Gross</b>	<b>Income</b>	<b>Net</b>	<b>Gross</b>	<b>Income</b>	<b>Net</b>
		£'000	£'000	£'000	£'000	£'000	£'000
<b>AIM:</b>							
To provide mainly public sector clients with independent, professional, actuarial advice of the highest quality at a reasonable cost.							
<b>Objective 1</b>							
To provide the actuarial advice to Government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main pension service schemes) and other employee benefits.		5,279	4,802	477	4,541	4,820	(279)
<b>Objective 2</b>							
To provide the social security projections, demographic analysis and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy.		2,992	2,115	877	2,454	1,894	560
<b>Net Operating Costs</b>	20	<b>8,271</b>	<b>6,917</b>	<b>1,354</b>	<b>6,995</b>	<b>6,714</b>	<b>281</b>

The notes on pages 23 to 38 form part of these accounts.



## NOTES TO THE RESOURCE ACCOUNTS

### 1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2003-2004 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The particular accounting policies adopted by the Department are described below. They 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 at their value to the business by reference to their current costs. As allowed in the revised Resource Accounting Manual (RAM) 2003-2004 the Department uses end year revaluation for modified historic cost accounting purposes.

#### 1.2 Intangible Fixed Assets

##### *Computer software*

Computer software and its associated consultancy costs having a minimum value of £1,000 are capitalised. The cost of such software is amortised over its expected useful life.

#### 1.3 Tangible Fixed Assets

##### *Land and Buildings*

The property occupied by the Department during the financial year until 24th July 2003 was rented under a Memorandum of Terms of Occupancy agreement and does not appear on the balance sheet.

##### *Fitting out costs - Leasehold Property*

The Department moved into new leasehold premises on 24<sup>th</sup> July 2003. The fit out costs were capitalised in the financial year 2003-2004 and will be amortised over an effective life of 20 years from 24<sup>th</sup> June 2004 – being the date of practical completion of the property. This property was previously described as Took's Court but has been re-named Finlaison House.

##### *Computer Equipment and Office Furniture*

Computer Equipment and Office Furniture valuations are based on the Department's estimate of their current valuation, taking into account appropriate indices. The minimum level for capitalisation of fixed assets is £1,000. Similar assets purchased in the same month will be grouped for the purpose of assessing whether they meet the capitalisation threshold.

#### 1.4 Depreciation

Depreciation is provided at rates calculated to write off the valuation of tangible and intangible fixed assets by equal instalments over their estimated useful lives. Depreciation periods adopted are as follows:

<i>Computer - Hardware and major software packages</i>	<i>3 years</i>
<i>Computer - Software small packages</i>	<i>4 years</i>
<i>Office Furniture</i>	<i>10 years</i>
<i>Fit-out costs for Finlaison House</i>	<i>20 years</i>

Some individual software packages are depreciated on a longer life span – dictated by the expected useful life of the system. For example, the new accounts system is being capitalised over 8 years.

### **1.5 Foreign Currency Transactions**

Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All translational gains or losses are taken to the Income and Expenditure account. Assets and liabilities at the year end are translated at rates ruling at the Balance Sheet date. Significant gains and losses are recorded under a separate note.

### **1.6 Leases**

GAD has an operating lease in respect of its premises Finlaison House (formerly known as Took's Court). GAD's commitments are disclosed in note 17. There are no finance leases.

### **1.7 Work-in-Progress**

Work-in-Progress is valued at the lower of cost (including appropriate overheads, multiplied by the number of rechargeable hours booked through the time recording system and not charged to clients) and recoverable value. Information as to the value of work-in-progress is elicited through the accounts system. Work is billed on completion or at agreed break-points and therefore the work in progress total is the value of incomplete work outstanding at 31 March.

### **1.8 Operating Income**

Operating income is shown net of value added tax and comprises receipts from repayment work, together with income from the sub-letting of spare accommodation in our leasehold property. In general, receipts from government departments generate around 55% of the appropriations-in-aid with the remainder coming from the wider public sector and overseas clients (see note 4).

### **1.9 Administration and Actuarial Expenditure**

Administration costs reflect the costs of running GAD, as defined under the Administration Cost Control Regime.

### **1.10 Capital Charge**

A non-cash charge, reflecting the cost of capital utilised by GAD, is included in operating costs and calculated as 3.5 per cent (2002-03: 6 per cent) on all assets less liabilities, except for -

- cash balances held within the Paymaster General's Bank account, where the charge will be nil; and
- for accounts payable to the Consolidated Fund where the credit is at a nil rate

### **1.11 Pensions**

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge on the PCSPS. The pension charge shown as an expense is the employer contribution for accruing pensions liability.

## 1.12 Early Departure Costs

GAD is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments. In accordance with the Resource Accounting Manual, future provisions have been discounted on an annual basis.

## 1.13 Value Added Tax

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

## 2. Staff Numbers and related costs

### a) Staff costs

Staff costs consist of:

	<u>2003-04</u>	<u>2002-03</u>
	£'000	£'000
	Total	Total
Wages and Salaries	4,534	4,152
Social security costs	431	360
Other pension costs	721	663
<b>Total</b>	<b><u>5,686</u></b>	<b><u>5,175</u></b>

For 2003-04 contributions of £720,873 (2002-03 £662,692) were paid to the PCSPS at rates prescribed by the Treasury on the advice of GAD. These rates were in the range of 11-19 per cent of pensionable pay and are due to be increased in financial year 2005-2006.

### b) Average Number of persons employed

The average number of whole-time equivalent persons employed (including senior management), during the year was as follows:

<b>Objectives</b>	<u>2003-2004</u>	<u>2002-2003</u>
1. To provide the actuarial advice to government departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main pension service schemes) and other employee benefits.	69	66
2. To provide the social security projections, demographic analysis and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy.	32	33.5
<b>Total</b>	<b><u>101</u></b>	<b><u>99.5</u></b>

## c) Salary and pension entitlements of Board Members

The following salary and pension details are shown in accordance with the 2003-2004 Resource Accounting Manual (RAM) issued by HM Treasury. These figures have been provided by Cabinet Office.

Name of Officer	Age (i)	Salary including performance pay (ii)	Real increase in pension at age 60 (iii)	Real increase in lump sum at age 60 (iv)	Pension at 31/03/04 (v)	Lump sum at 31/03/04 (vi)	CETV at 31/03/03 (vii)	CETV at 31/03/04 (viii)	Employee contributions and transfers-in (ix)	Real increase in CETV as funded by employer (x)
	Years	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£	£'000
Chris Daykin <i>Government Actuary</i>	55	170-175	2.5-5	10-12.5	70-75	220-225	1,167	1,296	4416	67
Grant Ballantine <i>Directing Actuary</i>	63	130-135	2.5-5	7.5-10	60-65	190-195	1,045	1,094	2009	43
Andrew Young <i>Directing Actuary</i>	54	130-135	2.5-5	7.5-10	50-55	150-155	804	886	1962	49
Kim Clegg <i>Director Finance &amp; Strategy</i>	43	50-55	0-2.5	2.5-5	10-15	35-40	126	152	774	18

(i) 'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

### Cash Equivalent Transfer Value

Columns (vii) and (viii) of the above table show the member's cash equivalent transfer value accrued at the beginning and end of the reporting period. Column (x) reflects the increase in cash equivalent transfer value 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.

A cash equivalent transfer value 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 cash equivalent transfer value 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 cash equivalent transfer value 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 Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

Cash equivalent transfer values are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

## Pension

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**). New entrants after 1 October 2002 must join **premium**.

### (a) Classic Scheme

Benefits 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. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

### (b) 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 commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the members' ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

### (c) Classic Plus Scheme

This is essentially a variation of **premium**, but with benefits in respect of service before 1 October 2002 calculated broadly as per **classic**.

Pensions payable under **classic**, **premium**, and **classic plus** are increased in line with the Retail Prices Index.

## Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. No payments of this kind were reported in the accounting period.

**3. Non-staff administration costs**

	<b>2003-04</b>	<b>2002-03</b>
	<u>£'000</u>	<u>£'000</u>
		restated
Rates and building service costs	476	167
Rent of building	1,131	400
Photocopying	12	25
Consultancy	15	64
Actuaries employed on a consultancy basis	16	17
Agency and other temporary staff costs	17	24
Recruitment	50	102
Travel, subsistence and hospitality	100	101
Training	138	158
Subscriptions	53	54
Computer running costs	114	115
Telecommunications	38	36
Stationery and publications	101	91
Other costs	33	50
	<b>2,294</b>	<b>1,404</b>
<b>Non cash items:</b>		
Depreciation and amortisation of fixed assets	176	115
Loss on revaluation of fixed assets	91	-
Cost of capital charge	112	154
Auditor's remuneration	35	34
Increased provision for early retirement costs	3	3
	<b>417</b>	<b>306</b>
<b>Total</b>	<b>2,711</b>	<b>1,710</b>

- i. The auditor's remuneration does not include any amount for non-audit work.
- ii. The 2002-03 comparative figures were restated to separately reflect subscription costs which are of significant value.

#### 4. Operating Income (see also Note 1.8)

The Department has a small net resource requirement to cover "core" activities which cannot be ascribed to specific clients. These "core" activities relate principally to population projections (and associated demographic work) and occupational pension scheme surveys. This income and the matching expenditure relates to a subset of Objective 2.

	2003-04		2002-03	
	Resource Outturn		Operating Cost Statement	
	Netted off gross expenditure in subhead	Appropriated in Aid	Payable to the Consolidated Fund	Total Income
£'000	£'000	£'000	£'000	£'000
Operating income analysed by classification and activity, is as follows:				
<b>Administration Income</b>				
Receipts from other government departments	3,792	-	-	3,792
Receipts from the wider public sector And overseas clients	3,125	-	-	3,125
<b>Total</b>	<b>6,917</b>	<b>-</b>	<b>-</b>	<b>6,714</b>

#### 5. Administration Cost Limits

The outturn shown against individual administration cost limits is as follows

	2003-04		2002-03	
	Outturn	Limit	Outturn	Limit
	£'000	£'000	£'000	£'000
Request for resources (Net Limit)	1,354	1,625	17	508

#### 6. Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

	2003-04	2002-03
	£'000	£'000
Net Operating Cost	1,354	281
Remove non-supply expenditure and income, including income scored as Consolidated Fund extra receipts (CFERs)		
Operating Income not classified as A in A	-	-
Consolidated Fund standing services	-	-
Adjust for the effects of prior-period adjustments to the current and prior years	-	-
Adjust for the transfer of Estimate cover in respect of transfer of functions	-	-
<b>Net Resource Outturn</b>	<b>1,354</b>	<b>281</b>

## 7. Analysis of Net Resource Outturn by Function and Reconciliation to Operating Cost Statement

	2003-04						2002-03		
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net total Outturn compared with Estimate	Net total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for resources 1									
Providing an actuarial consultancy service	8,271	-	-	8,271	6,917	1,354	1,625	271	615
<b>Resource Outturn</b>	<b>8,271</b>	<b>-</b>	<b>-</b>	<b>8,271</b>	<b>6,917</b>	<b>1,354</b>	<b>1,625</b>	<b>271</b>	<b>615</b>
Reconciliation to operating cost statement	-	-	-	-	-	-	-	-	-
<b>Net operating cost</b>	<b>8,271</b>	<b>-</b>	<b>-</b>	<b>8,271</b>	<b>6,917</b>	<b>1,354</b>	<b>1,625</b>	<b>271</b>	<b>615</b>

## 8. Tangible Fixed Assets

	Office Furniture and Equipment	Computer Equipment	Leasehold Building	Total 2003-2004
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 April 2003	217	273	-	490
Transferred from Intangible Assets	-	-	64	64
Additions	40	119	1,310	1,469
Disposals	-	(58)	-	(58)
Revaluation	-	(32)	(48)	(80)
<b>At 31 March 2004</b>	<b>257</b>	<b>302</b>	<b>1,326</b>	<b>1,885</b>
Depreciation				
At 1 April 2003	98	145	-	243
Charged in year	17	72	50	139
Disposals	-	(58)	-	(58)
Revaluation	-	(10)	-	(10)
<b>At 31 March 2004</b>	<b>115</b>	<b>149</b>	<b>50</b>	<b>314</b>
<b>At 31 March 2004</b>	<b>142</b>	<b>153</b>	<b>1,276</b>	<b>1,571</b>
Net book value at 31 March 2003	119	128	-	247



**9. Intangible Fixed Assets**

	<b>Computer Software</b>	<b>Fit-out of Tooks Court</b>	<b>Total 2003-2004</b>
	£'000	£'000	£'000
<b>Cost or Valuation</b>			
At 1 April 2003	277	64	341
Transferred to tangible assets	-	(64)	(64)
Additions	46	-	46
Disposals	-	-	-
Revaluation	(26)	-	(26)
<b>At 31 March 2004</b>	<b>297</b>	<b>-</b>	<b>297</b>
<b>Amortisation</b>			
At 1 April 2003	126	-	126
Charged in year	37	-	37
Disposals	-	-	-
Revaluation	(5)	-	(5)
<b>At 31 March 2004</b>	<b>158</b>	<b>-</b>	<b>158</b>
<b>At 31 March 2004</b>	<b>139</b>	<b>-</b>	<b>139</b>
Net book value at 31 March 2003	151	64	215

Upon acquisition of the leasehold property at Tooks Court (subsequently renamed Finlaison House) the capitalised design fees were transferred to the tangible asset value.

**10. Movements in working capital other than cash**

	<b>2003-04</b>	<b>2002-03</b>
	£'000	£'000
Increase/(Decrease) in work-in-progress	126	(110)
Increase/(Decrease) in third party credit balances held	-	(9)
Increase/(Decrease) in Debtors	152	187
Decrease/(Increase) in Creditors	(634)	41
<b>Change in working capital</b>	<b>(356)</b>	<b>109</b>

**11. Work-in-progress**

	<b>2003-04</b>	<b>2002-03</b>
	£'000	£'000
Value of time worked but not billed	596	470

**12. Debtors**

	<b>2003-04</b>	<b>2002-03</b>
	£'000	£'000
Trade debtors (i)	2,186	1,396
Deposits and advances	29	28
Prepayments and accrued income		
Accrued income (ii)	-	671
Prepayments	110	78
	<b>2,325</b>	<b>2,173</b>

(i) Trade debtors are shown net of a provision for bad debts of £34,721.74 (2002-03: £31,170.31)

**13. Cash at Bank and In Hand**

	<b>2003-04</b>	<b>2002-03</b>
	£'000	£'000
Balance at 1 April	748	166
Transitional Adjustment for Prior Years Deposits Held	-	(9)
Net Cash Inflow/(Outflow)	(661)	591
<b>At 31 March 2004</b>	<b>87</b>	<b>748</b>

**The following balances at 31 March 2004 are held at:**

Office of H M Paymaster General plus cash in hand	87	763
Less funds held on deposit for third party clients	-	(15)
	<b>87</b>	<b>748</b>

**The balance at the 31 March 2004 comprises:**

Amounts issued from the Consolidated Fund for supply but not spent at year end.	87	371
Other amounts due to the Consolidated fund	-	377
	<b>87</b>	<b>748</b>

The Office of HM Paymaster General provides a current account banking service. During the year, the Department held a commercial bank account and a small amount of cash in hand (£400).

The balance of funds held in the commercial bank account on 31<sup>st</sup> March 2004 was £33,502.58 and this represents third party deposits (refer to Note 21 for further information).

The balance of funds held in the Paymaster General account on 31<sup>st</sup> March 2004 was £86,598.60.

**14. Creditors**

Amounts falling due within one year

	<b>2003-04</b>	<b>2002-03</b>
	£'000	£'000
VAT payable	578	377
Trade creditors	1	13
Other Creditors (Accommodation)	440	8
Accruals	23	11
Deposits and Imprests	1	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	87	371
Other amounts due to the Consolidated Fund	-	377
	<b>1,130</b>	<b>1,157</b>

GAD has an agreement with HM Customs & Excise to pay over only that VAT on invoices paid by clients and to exclude VAT due to them on invoices issued but unpaid by clients.

Other creditors include deferred receipts relating to the lease of Finlaison House (refer to Note 17 for further information on this).

**15. Provision for Liabilities and Charges (see also note 1.12)**

The Department's provision for liabilities and charges comprised a provision for early retirement costs as follows:

	<b>2003-04</b>	<b>2002-03</b>
	£'000	£'000
Balance at 1 April	27	32
Increase in provision	3	3
Payments made in year	(8)	(8)
<b>Balance At 31 March 2004</b>	<b>22</b>	<b>27</b>

**16. Revaluation Reserve**

	<b>2003-04</b>	<b>2002-03</b>
	£'000	£'000
Balance as at 1 April	5	3
Current year revaluations	-	2
<b>Balance At 31 March 2004</b>	<b>5</b>	<b>5</b>

**17. Commitments under operating leases (also note 14.)**

The Department moved into Finlaison House (previously known as Took's Court) in 2003. The lease for these premises was signed by the First Secretary of State on behalf of government. In 2002-2003, GAD committed to find fit out costs of £1.31million. The actual costs of this work to be capitalised in GAD's 2003-2004 accounts was £1,309k. On 24th June the Department took responsibility for the lease on the building for a twenty (20) year term. The rental charges on this lease are fixed for each of the years and allow for a single increase per year of 2.5% nominal. This is not subject to rent review. The landlord agreed, by way of a security deed, to reduce rental charges during the first 5 years of occupancy. The total reduction is £2,061,000.

The payment of rent and the receipt of rent reduction both occur on quarter days (1st July, 1st October, 1st January and 1st April). In the period between 24th June 2003 and 23rd June 2004, GAD paid to the landlord £1,375,000 and received a rent reduction of £687,000. For the financial year to 31st March 2004, GAD paid to the landlord a net rent of £533,857.92.

In addition, GAD received rent from a sub-tenant, who occupies the 3rd and 4th floors of the building. The sub tenant, the Commission for Social Care Inspectorate (CSCI), took possession of its lease on 1st December 2003 for a minimum of 5 years. Such income had previously been included in the ambit of the Department's vote and is therefore appropriated in aid.

GAD has benefitted from a 20 year rental agreement which includes a rent rebate over the first 5 years. For accounting purposes this rebate has been shared evenly across the 20 years of the agreement and rental charges to the accounts will take place approximately as shown below. A new creditor (accommodation) has been created based on the comparison of the net amount paid in year against the agreed in year charge shown below :

Financial Year	Charged to financial year	(Creditor)/Debtor balance against cash paid	Cumulative (Creditor)
	£	£	£
2003-04	996,498	(440,432)	(440,432)
2004-05	1,319,297	(483,483)	(923,915)
2005-06	1,352,279	(336,013)	(1,259,928)
2006-07	1,386,086	(231,313)	(1,491,241)
2007-08	1,420,738	(97,393)	(1,588,634)
2008-09	1,456,257	55,017	(1,533,617)
2009-10	1,492,663	92,362	(1,441,255)
2010-11	1,529,980	94,815	(1,346,440)
2011-12	1,568,229	97,335	(1,249,105)
2012-13	1,607,435	99,899	(1,149,206)
2013-14	1,647,621	102,483	(1,046,723)
2014-15	1,688,811	105,063	(941,660)
2015-16	1,731,031	107,612	(834,048)
2016-17	1,774,307	110,106	(723,942)
2017-18	1,818,665	112,519	(611,423)
2018-19	1,864,132	115,592	(495,831)
2019-20	1,910,735	118,758	(377,073)
2020-21	1,958,503	121,760	(255,313)
2021-22	2,007,466	124,567	(130,746)
2022-23	2,057,652	127,612	(3,134)
2023-24	476,215	3,134	0

**18. Reconciliation of Net Operating Cost to changes in General Fund**

	2003-04		2002-03
	£'000	£'000	£'000
<b>Net operating cost for the year (Schedule 2)</b>		(1,354)	(281)
Income not appropriated in aid payable to the Consolidated Fund		-	-
		<b>(1,354)</b>	<b>(281)</b>
Net parliamentary funding		1,443	656
Deemed Supply		748	-
Change to 3rd party balances		-	9
Non-cash charges (see Note 3)			
Cost of capital charge	112		
Audit fee	35	147	188
Consolidated fund creditor for cash unspent		(87)	(371)
<b>Net (Decrease)/Increase in general fund</b>		<b>897</b>	<b>201</b>
General fund at 1 April		2,664	2,463
<b>General fund at 31 March (Schedule 3)</b>		<b>3,561</b>	<b>2,664</b>

**19. Related-Party Transactions**

GAD has had a significant number of transactions with other Government Departments and other Central Government bodies. Major clients using the Department's services included the Department for Work and Pensions, the Cabinet Office, the Ministry of Defence, the Home Office, H M Treasury, the Inland Revenue and the Department for Education and Skills. The Department also had a material contract with HM Customs and Excise from whom the accommodation at New Kings Beam House was rented until 27 July 2003.

None of the board members, key managerial staff or other related parties has undertaken any material transactions with GAD during the year.

## 20. Notes to Schedule 5

Administration costs have been allocated to objectives, wherever possible, in accordance with the Department's normal management accounting policies, or have been allocated on the basis of staff numbers attributed to objectives.

GAD's capital is employed exclusively for administration purposes. Its distribution between objectives is treated in exactly the same way as the related gross administration cost.

## 21. Third Party Assets

	<u>2003-04</u>
	<u>£'000</u>
Opening balance at 1 April 2003	15
Net receipts (payments)	19
Closing balance at 31 March 2004	<u>34</u>

The Department has a custodial role to ensure the safekeeping of client deposits. As at 31 March 2004, these amounted in total to £33,502.58 (31 March 2003: £14,940.78). An analyses of the movements on these accounts is shown in the table above

## 22. Entities within the Departmental Boundary

No entities other than GAD itself fall within the Departmental Boundary.

## 23. Post-Balance Sheet Events

- i. On the 8<sup>th</sup> March 2004, in response to Lord Penrose's report of the Equitable Life inquiry, Ruth Kelly MP, Financial Secretary to the Treasury, announced an independent review into the actuarial profession, with a particular focus on considering how best to modernise the profession and see that high standards are delivered in a more open, challenging and accountable professional culture. The review will include an examination of the relationship between the Government Actuary's Department and the actuarial profession and with other parts of government and will make recommendations on the future role of the Government Actuary, the functions of his Department and its future institutional status. The review is being conducted by Sir Derek Morris, the former Chairman of the Competition Commission. The review commenced on 1<sup>st</sup> May 2004 and is due to report by Spring 2005.
- ii. The independent Chairmanship of GAD's Audit Committee has been filled with the appointment of David Parsons from the Home Office.

## 24. Financial Instruments

FRS13, 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 nature of its activities, trading with other government departments and in the way in which it is financed, GAD 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 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 Department in undertaking its activities.

As permitted by FRS13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### Liquidity risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. GAD is not therefore exposed to significant liquidity risks.

### Interest rate risk

The Department's financial assets and liabilities are not exposed to interest rate risks.

### Interest rate profile

The following two tables show the interest rate and currency profiles of the Department's financial liabilities and assets.

**Table 1 - Financial liabilities**

	Total	Floating-rate financial liabilities	Fixed-rate financial liabilities	Non-interest bearing financial liabilities	Fixed-rate financial liabilities		Non-interest bearing financial liabilities
					Weighted-average interest rate	Weighted-average period for which rate is fixed	Weighted-average period until maturity
	£'000	£'000	£'000	£'000	%	Years	Years
<b>At 31 March 2004:</b>							
Sterling	22	-	-	22	-	-	2.6
Other	-	-	-	-	-	-	-
Gross financial liabilities	22	-	-	22	-	-	2.6

Table 2 - Financial assets

	<u>Total</u> £'000	<u>Floating- rate financial assets</u> £'000	<u>Fixed-rate financial assets</u> £'000	<u>Non-interest bearing financial assets</u> £'000	<u>Fixed-rate financial assets</u>		<u>Non-interest bearing financial assets</u>
					<u>Weighted- average interest rate</u> %	<u>Weighted- average period for which rate is fixed</u> Years	<u>Weighted- average period until maturity</u> Years
<b>At 31 March 2004:</b>							
Sterling	87	-	-	87	-	-	Note a
Other	-	-	-	-	-	-	-
Gross financial assets	87	-	-	87	-	-	-

Note:

a The Department's non-interest bearing financial assets comprise cash at bank and in hand of £86,998.60 which is available on demand.

#### Foreign currency risk

Fees payable in foreign currency amounted to 5.4% of total turnover in 2003/2004. The policy on foreign currency receipts is to account for them at the conversion value on receipt, accepting fluctuations in currency movements and not hedging against these movements. Foreign currency expenditure is minor.

#### Fair values

Set out below is a comparison by category of book values and fair values of the Department's financial assets and liabilities as at 31 March 2004.

Table 3 - Fair Values

	<u>Book value</u> £'000	<u>Fair value</u> £'000	<u>Basis of fair Valuation</u>
<b>Primary financial instruments:</b>			
<b>Financial assets:</b>			
Cash at bank	87	87	Note a
<b>Financial liabilities:</b>			
Provisions	(22)	(22)	Note a

Notes:

a) Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 3.5% in real terms (this represents a change from 6% in 2002-03 and prior years.)





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