



# **Department for Education and Skills**

## **Resource Accounts 2006-07**

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

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## Resource Accounts: Department for Education and Skills Annual Report

### Scope

#### 1. Entities within the Departmental accounting boundary

1.1 On 28 June 2007 the Prime Minister announced a series of machinery of Government changes including the creation of two new Departments to replace the Department for Education and Skills. Reference to the Department in this annual report and accounts should be read as the Department for Education and Skills (DfES).

1.2 The entities within the Departmental boundary that make up these consolidated financial statements are the core DfES Department (request for resources 1), the Sure Start Unit (request for resources 2) and the Children's Fund (request for resources 3).

#### 2. Bodies outside the Departmental accounting boundary

2.1 During 2006-07 the Department had lead responsibility for the public sector bodies listed below. Under the machinery of Government changes announced on 28 June 2007 lead responsibility for these public sector bodies will pass to the Department for Children, Schools and Families (DCSF) and the Department for Innovation, Universities and Skills (DIUS).

2.2 The executive Non-Departmental Public Bodies (NDPBs) have their own Accounting Officers who are responsible to Parliament for the funds received and publish their own accounts separately. Most of the NDPBs are financed through Grant in aid, with two (Construction Skills and Engineering Construction Industry Training Board) partly funded by levies which they raise from industry. All other bodies listed below are outside the Departmental boundary for the Resource Accounts.

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

Adult Learning Inspectorate (ALI) – *transferred to OFSTED from 1 April 2007*

British Educational Communications Technology Agency (BECTA)

Children and Family Court Advisory and Support Service (CAFCASS)

Higher Education Funding Council for England (HEFCE)

Investors in People UK Ltd (IIP)

Learning and Skills Council (LSC)

National College for School Leadership (NCSL)

Office for Fair Access (OFFA)

Office of the Children's Commissioner (OCC)

Partnerships for Schools (PFS)

Qualifications and Curriculum Authority (QCA)

Quality Improvement Agency (QIA) – *operational from 1 April 2006 when it took over some functions of the Learning Skills Development Agency which closed on 31 March 2006*

School Food Trust (SFT) – *operational from 1 April 2006*

Sector Skills Development Agency (SSDA)

Student Loans Company Ltd (SLC)

Training and Development Agency for Schools (TDA)

#### **Public Corporations**

General Teaching Council for England (GTC)

#### **Executive NDPBs funded by levy**

Construction Skills (*Formally Construction Industry Training Board*)

Engineering Construction Industry Training Board (ECITB)

**Tribunal NDPBs**

Special Educational Needs and Disability Tribunal – *transferred to DCA 1 April 2006*

**Advisory NDPB**

School Teachers' Review Body (STRB)  
Independent Advisory Group on Teenage Pregnancy (IAGTP)  
Teachers' TV (TTV)

**Ad Hoc Advisory Bodies**

Managing Information Across Partners Group (MIAP)  
Music and Dance Scheme Advisory Group

**Near to Government Bodies**

Adventure Activity Licensing Authority (AALA) – *transferred to Health and Safety Executive 1 April 2007*  
Basic Skills Agency  
British Academy  
Centre for Information on Language Teaching and Research (CILT)  
Children's Workforce Development Council  
League for the Exchange of Commonwealth Teachers  
University for Industry

**3. Ministers**

3.1 The following ministers formed the ministerial team of the Department during the 2006-07 financial year:

Rt. Hon Alan Johnson	Secretary of State (from 6 May 2006)
Rt. Hon Ruth Kelly	Secretary of State (to 5 May 2006)
Rt. Hon Beverly Hughes	Minister of State for Children, Young People and Families
Jim Knight	Minister of State for Schools and 14-19 Learners (from 6 May 2006)
Bill Rammell	Minister of State for Lifelong Learning, Further and Higher Education
Rt. Hon Jacqui Smith	Minister of State for Schools and 14-19 Learners (to 5 May 2006)
Lord Andrew Adonis	Parliamentary Under Secretary of State for Schools
Parmjit Dhanda	Parliamentary Under Secretary of State for Children and Families (from 6 May 2006)
Maria Eagle	Parliamentary Under Secretary of State for Children and Families (to 5 May 2006)
Phil Hope	Parliamentary Under Secretary of State for Skills

**4. Management of the Department***The Board*

4.1 The Board provides collective leadership to the Department and has overall responsibility for its performance. The Board's responsibilities include:

- taking forward the Department's strategic aims and objectives;
- advising on the allocation of its financial and human resources;
- managing Departmental resources;
- monitoring the achievement of performance objectives;
- maintaining a transparent system of prudent and effective controls;

- assessing and managing risk; and
- leading and overseeing the Department's reform programme.

4.2 During 2006-07 the Department was organised into six Directorates, which together was responsible for taking forward a policy programme which was underpinned by a set of Public Service Agreement (PSA) targets against which progress and achievement was measured. Each Directorate is represented by a Director or Director General on the Board. The composition of the Board during the year was as follows:

*Executive board members*

David Bell	Permanent Secretary
Tom Jeffery	Director General, Children, Young People and Families Directorate
Stephen Marston	Director General, Lifelong Learning and Skills Directorate
Ralph Tabberer	Director General, Schools Directorate
Jonathan Thompson	Director General, Corporate Services Directorate (appointed to the Board as Finance Director General on 9 May 2006) <sup>1</sup>
Ruth Thompson	Interim Director General, Higher Education Directorate (from 15 September 2006)
Caroline Wright	Director, Communications Directorate (from 15 May 2006)

*Other members of the board who served during the year*

Peter Makeham	Director General, Finance Directorate and Strategy and Reform Directorate (to 9 July 2006)
Michael Stevenson	Director, Strategy and Communication Directorate (to 1 September 2006)
Susan Thomas	Director General, Corporate Services and Development Directorate (to 30 September 2006)
Sir Alan Wilson	Director General, Higher Education Directorate (to 30 September 2006)

*Non-executive board members*

Philip Augar	Non-executive member
Katherine Kerswell	Non-executive member (from 5 October 2006)
Christine Gilbert	Non-executive member (to 30 September 2006)

<sup>1</sup> Following a reorganisation of corporate services, Jonathan Thompson took over responsibility in July 2006 for the newly formed Corporate Services Directorate including finance, strategy, procurement, human resource and IT services for the Department.

4.3 Board members have been appointed by the Permanent Secretary (with the approval of the Senior Appointments Selection Committee where appropriate). The Board assured itself of the independence of the non-executive board members. In October 2006 Katherine Kerswell (Chief Executive of Solihull Metropolitan Borough Council), was appointed to replace Christine Gilbert. The appointment process followed the guidance set down in paragraph 2.8 of HM Treasury's Corporate Governance Code of Good Practice (referred to as 'the Code'), including an emphasis on transparency, objectivity and induction.

4.4 The DfES board members met with the Permanent Secretary every month. In addition to the executive board members the two non-executive board members attend the monthly meetings to provide external perspectives and act as critical friends.

*Board Structure*

4.5 The DfES Board has been committed to continuous improvement. In 2006 it reviewed both its own structure and the corporate governance framework within the Department. As a result the main Board structure was refined to comprise a main Board (focusing on strategy and performance), and sub-boards for executive management, efficiency and reform, and communications. The Audit and Risk Assurance Committee provides an independent view back to the Board.

4.6 Following the Capability Review of the DfES, the Board implemented a development plan to increase its corporate impact and make itself more visible in working with Ministers and delivery partners and in leading the Department.

4.7 Key decisions made at board meetings are made available to all staff, with detailed minutes circulated to standing attendees. Where possible, the Board has accommodated staff who ask to attend Board meetings as part of their personal development.

#### *Audit and Risk Assurance Committee (ARAC)*

4.8 The composition of the DfES ARAC is in line with the guidance in section 5 of the Code. It is chaired by Philip Augar, a non-executive member of the Board. During 2006-07 the membership of ARAC consisted of two executive board members, two non-executive board members and three independent members. The executive board members have recently been removed from the membership to bring the Committee in line with the revised HM Treasury *Audit Committee Handbook*. The majority of members have recent and relevant financial experience.

4.9 ARAC complies with good practice outlined in the revised and reissued HM Treasury's publication *The Audit Committee Handbook March 2007*. It reviews its effectiveness at least annually. The National Audit Office (NAO), the Head of Internal Audit and the Director General of Corporate Services Directorate attend all the meetings. The ARAC Terms of Reference are published on the DfES website ([www.dfes.gov.uk](http://www.dfes.gov.uk)).

4.10 The ARAC met on three occasions during the year. A fourth meeting was cancelled due to adverse weather conditions and papers for this meeting were dealt with by correspondence. During the year ARAC considered the following issues:

- The management of risks within the DfES, including the operation of the Risk Committee and the Department's High Level Risk Register.
- The Department's Resource Accounts, and advised that the Accounting Officer sign the Statement on Internal Control.
- Reports from the Chairman of the Fraud Sub-Committee.
- Internal Audit's strategy and their significant findings.
- The financial audit and value for money work of the NAO.

#### *Relationships with Arms Length Bodies*

4.11 Section 6 of the Code sets out the relationship the departments are expected to have with its Arms Length Bodies, which for the DfES are all Non-Departmental Public Bodies (NDPBs). The Department has ensured there are robust governance arrangements in place within each of its NDPBs and senior DfES officials regularly attend NDPB Boards and audit committees.

4.12 The Department has established the DfES Group, consisting of the DfES board members and the Chief Executive Officers from the larger NDPBs. Its aim is to strengthen and sustain relationships with strategic partners. This Group met monthly joined by the NDPB Chair persons three times a year. Its agendas have enabled the DfES Group to influence strategy and share performance information. It is supported by a series of other cross partnership Groups for functional specialisms, e.g. the Finance Directors and the Communications Directors. Papers and outcomes from these meetings are shared with all partners. In addition, the contribution of NDPBs towards achieving the Department's PSA targets and delivery goals is reflected in the Department's internal performance management arrangements.

## **5. Departmental reporting cycle**

5.1 Each year the Department publishes the Departmental Report, a comprehensive review of the Department for Education and Skills (DfES) and the Office for Standards in Education (OFSTED). The latest Report (Cm 7092) published in May 2007 gives detailed information on the Department's achievements in the



2006-07 financial year, progress against its Public Service Agreement (PSA) targets and expenditure plans based on the resources allocated in the Spending Review 2004 settlement. Further information on the Department's performance in achieving its aims and objectives is available in the *Autumn Performance Report*. These documents are available on the DfES website ([www.dfes.gov.uk](http://www.dfes.gov.uk)).

## 6. Pension liabilities

6.1 The DfES balance sheet does not include the pension liabilities of its staff or ministers. The civil servants pension liabilities are part of the Principal Civil Service Pension Scheme (PCSPS) and ministers' pension liabilities are included in the Parliamentary Contributory Pension Fund (PCPF). Both pension schemes publish separate Resource Accounts. Further information on accounting treatment of pension liabilities within the DfES accounts can be found in the Remuneration Report (pages 23-30) and the Notes to the Accounts (Note 1 accounting policies page 43).

## 7. Register of interests

7.1 The Department maintains a register of interests which contains details of company directorships and other significant interests held by Board members. The register is open for inspection by appointment at any of the Departmental offices in Darlington, London, Runcorn or Sheffield. Anyone wishing to view the register can contact the Department as follows:

- By e-mail to: [malcolm.fielding@dcsf.gsi.gov.uk](mailto:malcolm.fielding@dcsf.gsi.gov.uk)
- By telephone: 020 7925 6115
- By writing to: Malcolm Fielding, Financial Accounting Division, Department for Children, Schools and Families, Fifth Floor, Sanctuary Buildings, 20 Great Smith Street, London, SW1P 3BT.

## 8. Auditor

8.1 The Comptroller and Auditor General (C&AG) is the auditor of the Department for Education and Skills' Financial Statements. The C&AG, appointed under statute, reports to Parliament the results of his audit examination. The notional cost of work performed by the National Audit Office during 2006-07 totalled £300,000 (2005-06: £300,000) for audit services in respect of the DfES and Teachers' Pension Scheme Resource Accounts.

8.2 The National Audit Office (NAO), on behalf of the C&AG, also carries out Value for Money studies for which they do not receive remuneration. During 2006-07 the main education studies were undertaken:

- Procurement in Further Education colleges.
- Sure Start Children's Centres.
- The Academies programme.

8.3 The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information. Furthermore he has established that the NAO are aware of that information.

## Management Commentary

### 9. Aim and objectives of the Department

9.1 The DfES was responsible for children's services, education and lifelong learning in England. The Department also had shared responsibility for certain programmes with other government departments, for example, the Sure Start programme which is shared with the Department for Work and Pensions.

9.2 During 2006-07 the Department's aim was to build a competitive economy and inclusive society by:

- creating opportunities for everyone to develop their learning;
- releasing potential in people to make the most of themselves; and
- achieving excellence in standards of education and levels of skills.

Underpinning this aim the Department had five objectives (listed below) and fourteen Spending Review 2004 Public Service Agreement (PSA) targets. These are unchanged from those reported in the *2006 Departmental Report* (Cm 6812) and *2006 Autumn Performance Report* (Cm 6992).

9.3 The 2006-07 objectives were:

- Objective 1 – Safeguard children and young people, improve their life outcomes and general well-being, and break cycles of deprivation.
- Objective 2 – Raise standards and tackle the attainment gap in schools.
- Objective 3 – All young people to reach age 19 ready for skilled employment or higher education.
- Objective 4 – Tackle the adult skills gap.
- Objective 5 – Raise and widen participation in higher education.

9.4 Further information on gross and net outturn by objective for both the current and prior financial year is available on the Statement of Operating Costs by Departmental Aim and Objectives.

## 10. Key Departmental activities during 2006-07

10.1 The following paragraphs are a summary of the operating performance during the financial year, and a summary of the environment which influences decisions and performance. Further information on the work of the Department and PSA targets is available in the *Departmental Report 2007* (Command Paper no 7092 issued in May 2007), the *Autumn Performance Report* (Command Paper No 6992 issued December 2006), the *Five Year Strategy for Children and Learners* (Command Paper No 6272 issued July 2004) and the *Departmental Investment Strategy 2005-08* (published July 2005). All of these documents are available on the DfES website ([www.dfes.gov.uk](http://www.dfes.gov.uk)).

### *Principal activities*

10.2 Working with our partners in frontline services, we are improving outcomes for all learners of all ages. During the year the Department's principal activities were:

#### Objective 1 – Children, Young People and Families

- A cross-government Safeguarding Programme Board was established in September 2006 to coordinate and prioritise work on safeguarding children and young people to improve coherence and maximise impact.
- In October 2006 the Department launched the Green Paper, *Care Matters* which sets out proposals to transform the way in which the care system works for children, and the quality of their experience.
- The introduction of the Childcare Act 2006 which received Royal Assent on 11 July 2006.
- Working closely with various partners in central and local government and schools on programmes to encourage healthy lifestyles including the Early Years Foundation Stage Framework, the Healthy Schools Programme, the School Sport Strategy, a healthy Living Social Marketing campaign and a new package of measures on school food standards.

## Objective 2 – Schools

- Working with partners to implement the change in structures and roles for schools, local authorities and OFSTED following Royal Assent of the Education and Inspections Act 2006 on 8 November 2006.
- The Primary Framework for Literacy and Mathematics was published in September 2006. This aims to support faster progression in both English and Mathematics. Schools will get training on how the frameworks can be used to tackle their particular challenges.
- The appointment of the Schools Commissioner, Sir Bruce Liddington who is responsible for delivering the agenda for greater choice, diversity and fair access in order to raise standards in the schools system.
- The launch of the Early Adopters programme in November 2006 for the 74 schools working towards Trust School status.
- In October 2006 new packages of measures were announced to address issues raised in the Education and Select Committee's report on special educational needs.

## Objective 3 – Young People

- Working with the Learning and Skills Council (LSC) and Connexions on a number of projects which have been put in place to ensure that young people are being given more support and opportunity to progress and achieve including a guarantee which will make sure that every 16-year-old is offered an appropriate place in full- or part-time education or training.
- Making improvements to the content and flexibility of the Apprenticeship Framework, which will increase the range of frameworks on offer and make sure only the best providers are funded to offer the training, has resulted in a massive increase in the completion rate, which now stands at 59%.
- Working with the Qualifications and Curriculum Authority (QCA), employers and higher education to increase the range of choice and opportunities for 14-19 year olds, and to make sure the curriculum is more engaging, stretching and relevant to future study and employment. This work includes development of new Diplomas at levels 1, 2 and 3 in Engineering, Construction and the Built Environment, Society Health and Development, Creative and Media and IT. The new qualifications will be published in September 2007, and are on track to be taught in selected areas in September 2008.
- The Department is working with partners in the LAs and the LSC to reform the 14-19 delivery infrastructure, including the formation of local partnerships, reforming the FE workforce and changes to the funding systems.

## Objective 4 – Adult Skills and Further Education

- Developing a new demand-led approach to delivering skills for business success, where employers' needs drive the way adult learning is delivered, and their skills priorities shape decisions on training supply, for example Train to Gain which offers employers fully subsidised training for low skilled employees.
- Working with a range of stakeholders to consider how to take forward the package of reforms for adult learning recommended in the *Leitch Report* (published in December 2006) including a new universal adult careers service in England.
- Working on a variety of initiatives to improve adults' employability by increasing their skills levels, e.g. introducing a national entitlement for free tuition for adults seeking their first full level 2 qualification in September 2006.
- Working with a range of partners (including the National Management Offender Service, the LSC, the Department for Work and Pensions and the Youth Justice Board) to develop and improve offenders learning and skills, and consequently their employment.

## Objective 5 – Higher Education

- Working with partners to take forward the recommendations in the *Leitch Report* for increasing the number and skill levels of people participating in the higher education sector.
- Working with stakeholders in preparation for the Higher Education Act which came into effect in September 2006.

*Internal and external influences on performance*

10.3 In July 2004, the Government published the *Five Year Strategy for Children and Learners*. It set out an ambitious programme of reform for the whole of education and children's services. This includes the key role the Department plays in championing the interests of children and young people right across government.

10.4 On 19 September 2006, the Department published *The Five Year Strategy for Children and Learners: Maintaining the Excellent Progress*, which reported on the Department's progress after two years. It looked at the rapid progress that had already been made and ahead to how the strategy would be taken forward to 2009 and beyond.

10.5 It set out the following five clear priorities for the Department and its partners:

- Closing the gap in educational attainment between those from low income and disadvantaged backgrounds and their peers.
- While at the same time continuing to raise standards for all across the education system.
- Increasing the proportion of young people staying on in education or training beyond the age of 16.
- Reducing the number of young people on a path to failure in adult life.
- Closing the skills gap at all levels – from basic literacy and numeracy to postgraduate research – to keep pace with the challenge of globalisation.

10.6 These priorities each connect with one another. For example, failure in the early years increases the likelihood of failure in school life, and later life. Children from low income families are less likely to achieve their full potential and more likely to leave school with no or few qualifications. They are more likely to end up on a path to failure.

10.7 A clear focus on safeguarding the young and vulnerable must underpin all of these priorities. The Department must make sure they are safe in the services the Department and its partners offer them, and we need to improve the health and well-being of all young people.

10.8 The Department used the priorities as the framework for its annual business plan. This will be a rolling plan to capture the Department's activity on a financial year-by-year-basis developing into annual plans for each year of the 2007 Comprehensive Spending Review. The annual business plan is based on eight strategic objectives, seven of which directly link to those in the Five Year Strategy, the last one focuses on what we need to do to lead and manage the Department, and the wider system.

Prior to the machinery of Government changes the DfES strategic objectives were to:

- Improve the health and well-being of children and young people.
- Safeguard the young and vulnerable.
- Close the gap in educational achievement between those from disadvantaged backgrounds and their peers.
- Continue to raise standards.

- Increase post-16 participation and attainment.
- Increase the number of children and young people on the path to success.
- Close the skills gap.
- Lead and manage ourselves and our partners.

Following the machinery of Government changes the framework and the objectives relating to children and families, schools and young people will become the responsibility of the Department for Children, Schools and Families; and the objectives relating to skills and higher education will be the responsibility of the Department for Innovation, Universities and Skills.

#### *Departmental Reform*

10.9 The role of the Department is to:

- Set and communicate clear priorities for improving outcomes and meeting the needs of children, young people, learners, parents and employers who depend upon the Department's services.
- Shape the best system to deliver these priorities.
- Work with partners to establish effective delivery systems.
- Manage the performance of the system.

10.10 Through a programme of internal reform the DfES worked to ensure it had the capabilities and attributes needed to lead reform of the system and deliver better outcomes for children, young people and learners. The core of this programme is the implementation over two years, of the findings of the *Capability Review of the Department for Education and Skills* published in July 2006. The new Department for Children, Schools and Families will continue this work.

10.11 The Review highlighted the many recent improvements in outcomes for children and learners. It praised the drive, passion and commitment of people in the Department, but also identified four areas where the Department needs to focus in order to meet future challenges.

- Developing a coherent unifying strategy for achieving better outcomes through more effective delivery.
- Managing the delivery chain and performance-managing delivery.
- Giving higher priority to managing the Department's people and ensuring that the Department has the right skills to deliver.
- Increasing the impact of the Department's Board.

10.12 Progress has already been made. Some of the key improvements are set out in more detail later in this report, but in brief the Department has made real steps in:

- Setting clear Departmental priorities for better outcomes for children and learners.
- Improving the way the Department works with key delivery partners.
- Better management and deployment of the Department's people.
- Developing the role of the Department's Board in leading the Department and working with Ministers.

These changes apply to the whole department and all the work it does, but they put a particular responsibility on the Department's central corporate services. The Corporate Services Transformation Programme is

contributing to the reform of the Department by delivering high-quality human resources, finance and IT services. Its objectives are to be more responsive to the professional needs and responsibilities of the Department's staff, whilst improving value for money.

## 11. Environmental, social and community issues

11.1 The education sector is fundamental to the success of the Government's objective – set out in *Securing the Future (2005)* – of driving the behavioural changes necessary to embed sustainable awareness and delivery throughout the UK. To achieve this, the Department is working to ensure children, young people and learners, and all people and organisations involved in the education sector understand why sustainability matters; the inter-dependencies it entails; and the impact of sustainable development on life and career choices now and in the future.

11.2 The DfES's sustainable agenda is set out in the action plan *Learning for the Future*, published in March 2006. The plan set out a range of targets for activities relating to policy development, operational improvement, and educating for behavioural change within the Department itself.

11.3 The key delivery areas are:

- Sustainable schools – the strategy for embedding sustainable understanding and delivery in every aspect of school life. It aims to guide schools in integrating sustainable theory and practical evidence in the whole curriculum through the administration and operation of a school, to its links to the local and global community.
- Schools estate – the Building Schools for the Future programme set out sustainable compliance standards for all new secondary schools, demonstrating the Government's commitment to put the principles of sustainable action in the public sector into practice. Proposals now in hand will ensure that all future new schools buildings are carbon-neutral, and options for improving carbon reduction in the operation of existing school buildings are being researched.
- Policy development – proposals in the action plan are to devise a toolkit to help colleagues embed sustainable principles in policy development. Since publication, however, the concentration has been on identifying the key areas of education policy, and working with teams and non-departmental public bodies in these areas, as well as articulating the most significant sustainable delivery aspects of cross-departmental Public Service Agreements.
- Engagement with Non-Departmental Public Bodies (NDPBs) – the action plan requires all NDPBs to be mandated to produce their own sustainable development action plans. The DfES has also been working more closely with key NDPBs such as the Learning and Skills Council and the Qualifications and Curriculum Authority to advise them on building sustainable capacity and understanding.
- Working with the third sector – there have been a range of working partnerships with third sector organisations in 2006-07, including the Sustainable Development Commission, Forum for the Future, Enviro, Building Schools for the Future and the Environmental Association for Universities and Colleges. The Department will establish a central programme budget for sustainable development in 2007-08 and will be looking to the third sector to continue to supplement and improve the expertise and understanding of sustainability within the Department.
- Operational development – The Department is working to meet the new targets and commitments set out in two key cross-government documents; the *Sustainable Delivery in Government Annual Report* now overseen by the Sustainable Development Commission, and the Sustainable Procurement Action Plan published in March 2007.

11.4 To be credible in the supporting and advisory role to the wider education sector, it is essential that the Department's policy and operational performance becomes more sustainable and work continues on reforms and improvements in the Department's corporate strategic understanding of sustainability in education, with the overarching aim changing Departmental behaviour and leading by example, as far as practicable.

11.5 The working profile of sustainable development was boosted within the Department in 2006 with the creation of a wholly dedicated central sustainable development division, located in the Corporate Services Directorate with Jonathan Thompson as the Board Champion. A new corporate strategy for sustainability has been developed including: securing programme funding; increasing staffing resources in policy teams; and taking forward an internal communications campaign in 2007, focusing on securing understanding and commitment at board and individual level.

#### *Relationships with employees*

11.6 Recruitment to the Department complied with the standards set by the Office of the Civil Service Commissioners as set out in the *Civil Service Commissioners' Recruitment Code* and the *Civil Service Commissioners Guidance on Senior Recruitment*. All exercises are managed through fair and open competition. The Department also follows the *Civil Service Code of Practice on the Employment of Disabled People*, which aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement with the Ministry is based solely on ability, qualifications and suitability for the work.

11.7 The DfES (and its successor departments) aspires to be an exemplar equal opportunities employer, whilst creating a workplace which values diversity and is free from any form of discrimination. It monitors its performance by analysing workforce statistics (by sex, ethnic minority, disability and age); and by monitoring the outcome of a number of HR processes by equality demographics, (including grievance, learning and development, leavers, recruitment, performance appraisal markings and promotions). The Department will be publishing a *Departmental Equality Report* in late spring/early summer 2007, which will cover progress towards the implementation of the Department's Equality and Diversity Delivery Plan.

11.8 As part of the Capability Review plan the DfES was developing a new people strategy to support the delivery of the *Five Year Strategy for Children and Learners* and Professional Skills for Government. This work will continue with the focus on improving people management across the organisation, ensuring the new Department (DCSF) has a professional workforce with the right skills and experience to deliver and develop a culture of continuous improvement. The new strategy will also support the Department's aim of becoming an exemplar employer in relation to equal opportunities and diversity.

11.9 The DfES worked together with its trade unions, both formally and informally, to achieve shared aims and objectives in an equal, positive and constructive relationship. The DfES (and the successor department) aims to promote a positive employee relations environment where staff and the trade unions can contribute constructively to a Department that leads in children and family services, education and skills.

11.10 The DfES conducted a full staff survey is conducted approximately every 18 months. The last published results are from the survey which took place in November 2005. The May 2007 survey results will be published during 2007-08. The survey provides reliable information on the views of staff on a range of topics. Regular tracking research is also conducted in which samples of staff are asked a small number of questions, some of which are taken from the main survey. This information provides a more frequent measure of the Department's progress. The Department's Board has responded to the survey findings as part of the process of continual improvement and they will be used as a key indicator of progress towards closing the capability gaps identified by the Capability Review.

#### *Payment policy*

11.11 It is DfES practice to pay for goods and services after receipt and within 30 calendar days of the invoice date. This policy guarantees the satisfactory receipt of goods and services before payment is made, and ensures that the supplier is paid within a reasonable time. During 2006-07, 97.7% of suppliers (2005-06: 96.3%) were paid within 30 days of receipt of a valid invoice. The DfES did not make any interest payments to suppliers under the Late Payment of Commercial Debt (Interest) Act 1988.

## **12. Financial performance**

12.1 The following paragraphs are a summary of the financial performance during the year and the investment strategy for the future for programmes which were the responsibility of the DfES.

*Comparison of outturn to Supply Estimate*

12.2 The Statement of Parliamentary Supply provides information on how the Department has performed against the Parliamentary controls on resources and cash expended by the Department. This information is supplemented by Note 2, which reports outturn in the same format as the Supply Estimate and the Reconciliation of resource expenditure between Estimates, Accounts and Budgets.

12.3 The £57.1 billion net resource outturn is 3% lower than the resource limit in the Supply Estimate. The total cash consumed was £59.1 billion. This was within the Supply Estimate Net Cash Requirement limit. The full analysis of expenditure by Estimate Line is provided in Note 2. The tables below contain information on the Estimate Lines where the variance is greater than 10% of the budget.

## Request for resources 1 – Core Department

12.4 In total, RfR 1 outturn was £1.766 billion lower than the Supply Estimate. The single largest variance above 10% is the £827 million underspend on capital grants paid to schools via Local Authorities explained below. In addition to the variances listed below, there was a significant variance on Grant in Aid budgets in Line S. Further information on this variance is given in Note 2.

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
A – Activities to support all functions	364,907	287,433	77,474	Actual administration costs have underspent limits by £8m. The majority of the line variance relates to the Department's allocation reserve (a budgetary control mechanism). The balance on the reserve was not transferred to the Departmental Unallocated Provision (DUP) in the Spring Supplementary leading to a technical underspend within grants.
B – Support for schools and teachers not through Local Authorities	1,390,913	1,218,662	172,251	The £172m variance is the result of underspends on a number of projects including: <ul style="list-style-type: none"> <li>a) Academies revenue: This £287m budget was underspent by £21m. This variance is primarily from spending on pre-opening grants (feasibility and implementation) that has not matched profiled expectations.</li> <li>b) Curriculum: Expenditure was £9m less than the £46m budget mainly as a result of slippage in the timing of TDA's activities relating to the physics and chemistry enhancement courses. On Modern Foreign Languages a number of projects were delayed due to the need to wait for the outcome of the Dearing Review. In addition there has been slippage due to the requirement to tender for a number of contracts under the new EU procurement directive on tendering for work previously expected to be awarded to grant funded bodies.</li> <li>c) School Workforce: the £353m teachers' performance pay budget is ring-fenced and time-bound and any unspent allocations have to be returned to the Department. As a result of receipts from LAs, this budget was underspent by £9m.</li> </ul>



Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
				d) London Challenge: slower than anticipated development of work on the London Student pledge and on new programmes of teaching and learning has led to a £4m underspend against a budget of £314m.
D – Higher Education	106,626	82,041	24,585	<p>Following a change to Treasury rules, around £23m of additional funding was provided to meet the utilisation of cash costs in 06-07 on a provision previously set up by HEFCE for pension payments. In the event it was possible to meet the costs within existing budgets.</p> <p>There was also a £2.3m underspend in the Foundation Degree Development budget due to lower than expected claims from Health and Social Care and Gateway projects.</p>
F – Further Education, Adult learning & skills for lifelong learning and international programmes	301,303	266,254	35,049	<p>This variance consists of underspends on a number of individual programmes. The most significant variance are:</p> <p>a) Funding for 14-19 qualifications and curriculum projects was tightly managed by QCA resulting in a saving of £8m.</p> <p>b) Some Post 16 standards projects did not proceed as planned resulting in a £6m underspend.</p> <p>c) The 14-19 Local Delivery programme budget included funding for TDA to implement a Dedicated Diploma Information Line. This funding was not required resulting in a £3m underspend against budget.</p> <p>d) There was a £3m underspend on Skills for Life Learning due to a number of factors including; savings in promotional costs; some work transferred to another review; and less activity than expected on Department of Health projects.</p>
G – Support for students in Higher Education	1,630,891	1,414,922	215,969	The £1.4 billion outturn includes a £109m credit adjustment for a previous over provision on the debt sale provision. This credit adjustment had not been included in the Supply Estimate. The budget did include a £100m contingency to guard against possible overspends on the non- cash related provision movements.
J – Capital Grants for LEAs to support schools	3,035,240	2,207,831	827,409	<p>Building Schools for the Future (BSF):</p> <p>The great majority of the underspend, £717 million, relates to slippage in the BSF programme funded through the Standards Fund. Profiled expenditure for local authority projects was not matched by progress on the ground. All BSF funding allocated to projects will be required in future years.</p>

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
				<p>Devolved Formula Capital: There is a small underspend on the programme paid through the Standards Fund, and commitments in respect of Federations, Fresh Start and 14-19 projects which require the balance of the forecast underspend to be rolled forward to 2007-08.</p> <p>Voluntary Aided Programme: Apart from Standards Fund programmes, but included in the above variance, there is a £10 million underspend relating to the Voluntary Aided Programme. This is due to delays in numerous small projects completing works and submitting invoices.</p> <p>E-learning credits: There is an additional technical underspend of £75 million, relating to e-learning credits. This expenditure has now been reclassified as revenue, resulting in a corresponding increase in expenditure on schools revenue funding in Estimate Line I.</p>
K – Higher Education fees and awards paid through LEAs	11,464	3,077	8,387	Mandatory award funding is paid to Local Authorities following the receipt of pre-certifications or audits. The budget is based on best estimates from previous years and expenditure is very difficult to predict. Expenditure was lower than planned because 2006-07 Local Authority claims were lower than in 2005-06.
L – Current grants to LAs to support children and families	262,072	228,752	33,320	The winding up costs of the Connexions Partnerships were £20m lower than expected in the budget.
M – Capital grants to LAs to support children and families	41,140	49,562	(8,422)	During the year the Department internally transferred additional resource to the Youth Capital Fund which will support the implementation of the proposals in the Youth Green Paper. This transfer was not reflected in the Supplementary Estimate budget virements.
<b>Request for resources 2 – Sure Start</b>				
Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
A – Sure Start Current Grants not through LAs	73,674	35,343	38,331	The main elements of the underspend are: <ul style="list-style-type: none"> <li>a) an £8.4m underspend on capital grants for the Workplace Nurseries programme;</li> <li>b) £3.5m on differences between estimated spend on Sure Start Local Programmes and audited outturn; and</li> </ul>

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
				c) £13m on the Transformation Fund in its first year of operation, including a lower take up of training pathways funded by the Children's Workforce Development Council.  The remainder of the underspend comprises a number of small underspends across a range of programmes and some unallocated funding.
C – Local Authority Capital Grants	418,025	286,586	131,439	The underspend arose mainly from slippage on Children's Centres. A strategy is in place to increase the rate at which Children's Centres are built. This includes providing earlier advice to LAs on their plans (targeting LAs in greatest need of help), increasing the speed of project approval by streamlining the approvals process and improving information and budget management processes. The internal milestone of 1,250 children's centres by March 2007 has been met and it is expected that the new strategy will enable the March 2008 target of 2,500 Children's Centres to be met.
E – Sure Start schools current grants not through Local Authorities	24,860	17,697	7,163	Early Learning Partnership bids were lower than anticipated and delays were experienced on the start of the project.

12.5 The total RfR3 outturn was £2.8 million lower than budget, a variance of 2%. Both RfR3 Estimate lines have variances below 10% and do not require a detailed explanation, however, the overall RfR3 underspend is largely the result of a contingency held to cover Children's Fund evaluation costs and financial risks surrounding past issues on Children's Fund commitments. The management of the financial risks in year meant that these contingencies were not required and because these resources are ring-fenced it was not possible to use the resource elsewhere.

12.6 The Operating Cost Statement reports total administration costs and programme costs by request for resource. This year the net operating costs have by doubled from £28.5 billion in 2005-06 to £57.1 billion. This increase is directly as a result of the Department taking on responsibility from DCLG for the £26.6 billion Dedicated School Grant funding payments to Local Authorities.

12.7 The most significant item on the DfES balance sheet at 31 March 2007 is student loans. Student loans comprise 97.8% of the gross assets, which has a significant impact on the Department's balance sheet. The net assets on the balance sheet have increased by £1.9 billion largely as a result of the steady increase in outstanding loan balances, which increased by £1.8 billion this year. Other than creditors, in which accruals have fallen in value by 30% (£135 million) compared to last year, the assets and liabilities not related to student loans have remained relatively stable.

12.8 The cash flow statement, provides further information on how the Department finances its activities. The main source of funding is the Consolidated Fund. The statement shows a £28.3 billion increase in the net cash outflow, which reflects the overall increase in expenditure on Local Authority grant funding. The operating costs include non-cash costs totalling £1.1 billion, most of which relates to increases in provisions. This is only 2% of the net operating costs.

12.9 The Statement of Operating Costs by Departmental Aim and Objective has been prepared by directly allocating programme costs, and apportioning indirect costs where they support a number of objectives, for example, central support service has been apportioned according to the number of staff allocated to individual objectives. Expenditure on Objectives 3 (young people) and 4 (adult skills) remain constant this year. However, there has been significant movement of expenditure between Objective 1 (children and families) and Objective 2 (schools) which is the result of a reclassification of approximately £804 million that would be apportioned to Objective 2 in 2005-06. The grant expenditure has been reclassified to Objective 1 to reflect the contribution that expenditure on Schools initiatives makes to improving the life chances of children and young people. Objective 5 (higher education) spending has risen by £0.9 billion. This is mainly due to increases in the following programme expenses; a) HEFCE Grant in Aid expenditure; b) non cash costs in relation to student loan related provisions (because 05-06 costs contained the impact of the discount rate change); c) HE grants. A new line of analysis has been added to the statement this year for the Dedicated Schools Grant. The grant is designed to maintain the school system whilst at the same time contributing to the Department's strategic objectives of raising education standards for all children, closing the education attainment gap and increasing children's health and well-being. Rather than apportion 46% of its gross programme expenditure, the Department chosen to disclose this expenditure separately.

#### Analysis of trends

12.10 The table below compares financial performance indicators for 2001-02 to 2006-07. It focuses on administrative costs and student loans, which have a significant impact on the Department's balance sheet.

Indicator	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(i) Gross admin costs as a % of total gross spend	1.2%	1.1%	1.0%	1.0%	0.8%	0.4%
(ii) Staff costs as a % of gross admin costs	56%	61%	62%	58%	63%	60%
(iii) Purchase of new assets used in the administration of the Department	£10,552,000	£13,129,000	£12,506,000	£9,673,000	£7,968,000	£8,629,000
(iv) Rate of replacement of Departmental assets in use	7 years	6.6 years	6 years	6 years	7 years	8 years
(v) Student loans issued in year	£2,117,714,000	£2,292,663,000	£2,402,309,000	£2,474,933,000	£2,612,651,000	£2,954,116,000
(vi) Repayment of Student loans as a % of opening balance of loans	5%	4.6%	4.5%	4.9%	3.7%	4.2%

#### Explanation of trends

12.11 Gross administration cost expenditure during 2006-07 was £245.6 million, £3.8 million higher than in 2005-06. Although the total administration costs have increased, less is being spent on staff costs. The total being spent on admin staff costs has fallen by £3.7 million during the year in line with the fall in the number of staff employed by the Department. Staff costs are also falling as a percentage of the total amount spent on administration costs. However, the restructuring of the DfES which has reduced staff costs and numbers has led to £12.6 million being provided in year for early departure costs. This is a major contributory factor in the increase in other administration costs.

12.12 The rate at which DfES replaced assets was consistent with its asset management policy. There has been an increase in the average replacement cycle because more is being invested in furniture and fittings in Sanctuary Buildings which have a longer expected useful life than IT assets which is normally a higher proportion of annual capital expenditure.

12.13 There has been a £341m increase in value of student loans issued during the year. This partly explained by the increase in student numbers (which have increased from 1,715,000 in 05-06 to a projected 1,739,000 in 06-07), but the more significantly by the introduction of tuition fee loans.

12.14 The cash repayment of student loans continues to increase and this is reflected in the increase in the rate of repayment to 4.2%. The rate of repayment is increasing to levels in those in earlier years, before the borrower repayment threshold was raised in 2005-06.

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

	2006-07 £000	2005-06 £000
<b>Net Resource Outturn (Estimates)</b>	<b>57,103,209</b>	<b>28,516,883</b>
<i>Adjustments to remove:</i>		
provision voted for earlier years	-	-
<i>Adjustments to additionally include:</i>		
non-voted expenditure in the OCS	-	-
Consolidated Fund Extra Receipts in the OCS	(2,739)	(1,949)
Other adjustments	-	-
<b>Net Operating Cost (Accounts)</b>	<b>57,100,470</b>	<b>28,514,934</b>
<i>Adjustments to remove:</i>		
capital grants to local authorities	(2,543,979)	(2,684,523)
Capital grants financed from the Capital Modernisation Fund	(3,146)	(2,599)
voted expenditure outside the budget	(18,562,851)	(17,119,770)
<i>Adjustments to additionally include</i>		
other Consolidated Fund Extra Receipts	-	-
resource consumption of Non-Departmental Public Bodies	17,580,392	16,047,168
unallocated resource provision	-	-
<b>Resource Budget Outturn (Budget)</b>	<b>53,570,886</b>	<b>24,755,210</b>
<i>of which</i>		
Departmental Expenditure Limits (DEL)	52,905,318	24,204,101
Annually Managed Expenditure (AME)	665,568	551,109

*Future developments*

12.15 The DfES's overall settlement for Comprehensive Spending Review 2007 was announced in the Chancellor of the Exchequer's Budget Statement in March 2007. This settlement set the Department's revenue and capital budgets for the period April 2008 – March 2011. Overall investment will increase by an average of 2.7% in real terms over each of the next three years putting £10.7 billion more into schools, colleges, universities and children's services. This settlement can be broken down into two elements:

- Revenue – an additional £8.8 billion will be invested in education, skills and children's services by 2010-11, a 2.23% growth in real terms over each year of the settlement.
- Capital – investment in schools, colleges and universities will increase at 4.1% growth per annum over inflation.

12.16 The settlement will be allocated to the DfES's successor departments to provide the funding to enable the departments to deliver their commitments as well as making progress in new areas such as the personalisation agenda in schools and responding to the challenges of the Leitch Review of Skills. However, whilst the DfES's settlement was generous in the current fiscal environment, it does mean slower growth for the sector than in recent years. This places an added emphasis on value for money and controlling future costs. The Department will be targeting funds on activities which support Departmental priorities so that

whilst some priority services will continue to grow, support for other services or projects will reduce or end. The Department is determining the impact on individual programmes.

12.17 In addition to making sure there is value for money in programme expenditure, the DfES was set tough efficiency administration cost targets. Over the settlement period the DfES's target was to reduce the central administration budget by 5%. The administration budget will also be allocated between the two successor departments.

12.18 The Chancellor also announced in the 2007 Budget Statement the Government's intention to sell student loans totalling around £6 billion between 2008-09 and 2010-11. The DfES has been working with HM Treasury on a strategy for the future sale. In addition to the proposed sale of loan debts, another important development affecting the value of student loans and provisions is the change in the measurement and disclosure of student loans when the new reporting standard (FRS 26 Financial Instruments: Recognition and measurement) becomes effective on 1 April 2007. As student finance policy becomes the responsibility of the Department for Innovation, Universities and Skills with effect from 1 April 2007 these issues are the related assets and liabilities transfer to the new department.

#### *Significant contingent liabilities*

12.19 Note 28 to the Accounts provides updated information on the contingent liabilities which the DfES was required to report to Parliament at 31 March 2007. The DfES contingent liabilities will be allocated to the two successor departments during 2007-08.

12.20 The largest contingent liability on 31 March 2007 is an indemnity to meet the reimbursement of European Social Fund or European Regional Development Fund grants previously paid to Training and Enterprise Councils (TECs). The outstanding unaudited balance that could potentially be requested by European auditors has fallen from £81.4 million to £60.7 million.

12.21 The second largest liability carried over from 2005-06 related to potential claims from former TEC employees. During 2006-07 there has been a robust review of all staff who might be affected by the CELTEC judgement. The review concluded that the main area of risk relating to those ex-TEC staff transferred to the LSC has now passed and the liability has reduced from £59 million to £2.5 million.

### **13. Investment**

13.1 The Government is continuing to make substantial investment in the learning environments of children and adults, and in new ways of delivering their learning. This investment is key to driving forward the Department's strategic objectives and achieving its Public Service Agreement targets.

13.2 The Department's *Five Year Strategy for Children and Learners* published in July 2004, is clear that capital investment enables better learning and teaching, improved services for children and an environment in which information and communications technology (ICT) can be fully exploited.

13.3 The Department works with a range of partners, including local authorities (LAs) and Non-Departmental Public Bodies (NDPBs), who play an important role in delivering investment. School and college managers have considerable freedom to manage their own budgets and the Department works strategically with them to make sure value for money is achieved.

13.4 The *Departmental Investment Strategy* covering the period 2005-06 to 2007-08 has a number of themes which underpin Departmental investment:

- Modernisation – to allow institutions to deliver learning in the 21st century.
- Personalisation – to deliver choice and investment in learning environments that are tailored to meet the needs of individual pupils and learners.
- Multiple use – where buildings and their facilities will be designed to support different types of provision and service to local communities.

13.5 The following paragraphs summarise capital investment during the year and future plans by education sector. Full details of the investment plans are contained in the strategy available on the DfES website ([www.dfes.gov.uk](http://www.dfes.gov.uk)).

#### *Sure Start (including Early Years Education and Childcare)*

13.6 The Department's capital spending on Sure Start, Extended Schools and Childcare supports the commitment set out in the ten year strategy for childcare *Choice for parents, the best start for children* published in December 2004. The action plan *Choice for parents, the best start for children: making it happen* was published in May 2006 setting out how the Department will work with partners to deliver a transformation to services.

13.7 Sure Start Children's Centres and extended schools are at the heart of the Every Child Matters Change for Children programme, offering integrated support to children and their families.

13.8 Funding for Children's Centres is aimed at developing those centres targeting children under five in the 30% most disadvantaged areas by 2008. In March 2007, the target of 1,250 children's centres was achieved ensuring that over one million children now have access to a centre. By 2008 the Children's Centre network will grow to 2,500. Funding from the 2007 Comprehensive Spending Review will help deliver the remaining centres to reach 3,500 communities. This will mean that young children and families in every community will have access to a Children's Centre by 2010.

13.9 By the end of March 2007, over 4,400 schools were offering extended services involving children in a wide range of activities ranging from homework and sport to wrap around childcare from 8am to 6pm. In England, half of all primary schools and a third of all secondary schools will be providing access to extended services by 2008. General Sure Start Grant capital investment is providing start-up funding in conjunction with the Standards Fund. By 2010, all schools will be providing access to extended services.

#### *Schools*

13.10 The total capital investment being made in school buildings and infrastructure is rising from £5.5 billion in 2005-06 to £6.3 billion by 2007-08, and is planned to rise by £8 billion by 2010-11.

13.11 This investment is improving the condition, suitability and sufficiency of the nation's schools. The Department seeks to provide a balance of programmes that enable schools, LAs, dioceses and others to invest to best effect for children and learners. These include:

- Devolved programmes, which go direct to every school, LA and diocese for priorities which are decided mainly locally.
- Strategic programmes, to deliver long-term national priorities for renewing the schools estate.
- Targeted programmes, which focus on projects which are too large for the devolved programmes and too urgent to wait for the strategic programmes.

13.12 The Government recognises that significant extra investment comes from LAs, voluntary aided and specialist schools, local communities, Academy sponsors, private developers and from other government and European bodies. This is vital in enabling more work to be done in schools, particularly with extended school facilities for the benefit of the whole community.

13.13 Taken together, the Department's support for capital investment in schools means:

- More resources for every school to spend on its own priorities at its discretion.
- Further money for every part of England to meet local priorities and needs.
- Planned rebuilding or remodelling of every secondary school, starting with those that need it most.

### Further Education

13.14 Investing in the facilities required to deliver high-quality, responsive education and training is vital to achieving the ambition set out in the White Paper *Further Education: Raising Skills, Improving Life Chances* published in March 2006. The White Paper sets out the reform required to ensure the further education system is the powerhouse for delivering the skills needed to sustain an advanced, competitive economy and make for a fairer society. Lord Leitch's report *Prosperity for all in the global economy – world class skills*, builds on these reforms and sets a challenge to ensure that the UK has a world-class skills base by 2020. The challenge has been accepted and the DfES has been focussed on making sure the further education system is able to respond to the challenge. Responsibility for the FE infrastructure transfers to the Department for Innovation, Universities and Skills with effect 1 April 2007.

13.15 In line with the Department's *Five Year Strategy for Children and Learners* the Government has established a new 16-19 joint capital fund from 2006-07 to provide increased participation and improve choice and quality for the 16-19 age group. The White Paper builds on this and in line with the strategic leadership role of LAs in delivering 14-19 reform, LAs are extending the scope of their Building Schools for the Future (BSF) visions to cover all settings in which young people aged 14-19 will learn, including further education colleges. As funding flows through the Local Education Partnership to implement the BSF vision, LSC is directing its capital resources to implement in full the further education component of the vision. This means that for the first time, there is effectively a fully integrated capital strategy which will deliver for 14-19 year olds across schools and in the further education system. This work will be continued by the Department for Children, Schools and Families.

13.16 The White Paper also sets out how capital investment in further education, by focusing on employability, can better meet the needs of the learners and employers. A network of National Skills Academies will be created as centres of national excellence for each of the major sectors of the economy. Twelve are planned for 2007-08. Capital investment will also incentivise specialisation through the strengthened Centres of Vocational Excellence programme and the development of specialist networks.

13.17 Capital investment is also contributing to efficient delivery. The size of the further education estate continues to reduce as space is used more effectively, and modern, more efficient buildings help reduce running costs, allowing colleges to focus their resources on frontline delivery.

### Higher Education

13.18 Capital expenditure in higher education supports strategic outcomes in terms of the excellence; relevance and sustainability of UK research; and in terms of raising the quality and cost efficiency of teaching. Responsibility for this investment has transferred to the Department for Innovation, Universities and Skills.

13.19 There are two main capital programmes through the Higher Education Funding Council for England (HEFCE) which are:

- The Science and Research Investment Fund (SRIF), a joint programme with the Office for Science and Innovation but managed by HEFCE.
- Learning and Teaching Capital, with funding being provided to both higher education institutions and further education colleges.

13.20 The Department's *Five Year Strategy for Children and Learners* stated that alternative ways would be developed to achieve higher education level qualifications; promote innovation and knowledge transfer; and maintain our world-class position in research. Capital investment in research directly supports the strategic outcome. SRIF has facilitated an enormous improvement to research infrastructure at the UK level, which in 2006 is in a much better (and improving state) than in 2001.

13.21 This improvement can be seen in three main areas:

- Institutions now generally have access to enough space of broadly appropriate character (maintenance condition, fitness for purpose, and legislative compliance) to carry out their sustainable programmes of teaching and research.



- Many institutions are undertaking condition surveys, producing strategic 10-year capital plans, and working towards managing their physical assets in a sustainable manner (i.e. more efficiently, with consistent investment, and generating a realistic return on assets).
- A few institutions are close to being able to finance their required future level of investment in their infrastructure on a recurrent basis, and some are actually spending at or close to these required levels.

13.22 Budget 2007 confirmed that total investment in the public science base will rise by an annual average rate of 2.5% in real terms over the period 2008-09 to 2010-11, meeting the commitment in the ten year science investment framework.

13.23 Over the past two years HEFCE has worked with the DfES, the Office for Science and Innovation (OSI) and HM Treasury and with sector representative bodies to develop a new approach to capital investment, to secure greater assurance from higher education institutions that they are investing sufficient amounts to maintain their physical infrastructure in a fit state for the long-term. This should then avoid a build-up of underinvestment as occurred over the 1980s and 1990s. In exchange for such assurances HEFCE are looking to reduce the burden further on the levels of information required from universities and colleges to release capital allocations. They will work with the sector to develop this in time for implementation in 2008.

#### *Public-Private Partnerships/Private Finance Initiatives*

13.24 Public Private Partnerships (PPPs) and Private Finance Initiatives (PFI) have become well-established procurement methods for the construction of new schools and the refurbishment of existing ones. There are currently 105 signed contracts (98 in 2005-06) in the schools sector covering over 800 schools, with a total value of £4 billion (£3.5 billion in 2005-06). Services have started in over 80 projects covering 615 schools and total new build will reach 334 schools.

13.25 In autumn 2005 the DfES published a Partnerships UK review of the operation of signed school PFI contracts. Overall, the review showed a positive picture with PFI contracts operating successfully across most of their provision and some strong examples of good delivery. In response to the review, the Department is looking to improve the process and substance of PFI contracts by providing further support for schools and authorities to securing good service delivery, for example on school catering, benchmarking prices, strong and effective helpdesk performance, and variations to contract. The Department will also be working with the private sector to improve performance and customer focus in these areas.

## Remuneration Report

### 14. Ministers' and board members' remuneration policy

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

14.2 The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership comprises the Chairman of the Senior Salaries Review Body (SSRB) (who acts as chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury.

14.3 The pay of Senior Civil Servants (SCS) in DfES is decided by the SCS Pay Committee, chaired by the Permanent Secretary, and comprising members of the Executive Management Board. The SCS Pay Committee makes decisions within the limits and delegated authorities set by the Government in response to the annual report of the Senior Salaries Review Body (SSRB). The Permanent Secretary meets separately with a non-executive director to determine the pay of board members.

14.4 Performance management and reward policy for members of the Senior Civil Service including board members is managed within the central framework set by the Cabinet Office. It allows for annual performance related base pay and bonus awards, agreed centrally each year following SSRB recommendations. The Senior Civil Service Performance Management and Reward principles, which include

explanations of how base pay and bonus levels are determined and their relative value, for 2006-07 can be found at: [www.civilservice.gov.uk](http://www.civilservice.gov.uk). The SCS performance bonuses are allocated from a central salary 'pot' expressed as a percentage of the DfES's SCS salary bill, which is agreed centrally each year following the SSRB recommendations. In 2006-07 this 'pot' was limited by the Cabinet Office to 7.6% (2005-06 6.5%) of the total SCS salary bill from which individuals were awarded varying amounts, dependent on performance.

#### 15. Summary and explanation of policy on duration of contracts, notice periods and termination payments

15.1 The permanent head of the Department (the 'Permanent Secretary') is appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial head of the Department.

15.2 Members of the Executive Management Board are appointed by the Permanent Secretary with the agreement of the Prime Minister and the Senior Leadership Committee where appropriate, which consists of Permanent Secretaries from across Whitehall and is chaired by the Cabinet Secretary.

15.3 All board members contractual terms comply with the requirements set centrally for the Senior Civil Service by Cabinet Office, and the exact terms offered reflect the requirement of the post. The principles governing recruitment to, and departure from the Civil Service, including details of compensation for early termination, are set out in the Civil Service Management Code at [www.civilservice.gov.uk](http://www.civilservice.gov.uk)

#### 16. Details of board members' service contracts

16.1 The contractual terms of DfES board members during 2006-07 are shown in the following table.

##### *Contractual terms for board members*

	<b>Date of Appointment to Position</b>	<b>Type of Contract</b>	<b>Unexpired term at 31/3/07</b>	<b>Details of Notice Period</b>
Mr David BELL <i>Permanent Secretary</i>	1 January 2006	Indefinite	Not applicable	3 months in writing
Mr Tom JEFFERY <i>Director General</i>	10 November 2003	Indefinite	Not applicable	3 months in writing
Mr Peter MAKEHAM <i>Director General (to 9 July 2006)</i>	27 November 2000	Indefinite	Not applicable	3 months in writing
Mr Stephen MARSTON <i>Director General</i>	30 August 2005	Indefinite	Not applicable	3 months in writing
Mr Michael STEVENSON <i>Director (to 1 September 2006)</i>	9 June 2003	Indefinite	Not applicable	3 months in writing
Mr Ralph TABBERER <i>Director General</i>	13 March 2006	Indefinite	Not applicable	3 months in writing
Mrs Susan THOMAS <i>Director General (to 30 September 2006)</i>	11 December 2000	Indefinite	Not applicable	3 months in writing
Mr Jonathan THOMPSON <i>Director General (from 9 May 2006)</i>	9 May 2006	Indefinite	Not applicable	3 months in writing
Ms Ruth THOMPSON <i>Interim Director General<sup>1</sup> (from 15 September 2006)</i>	15 September 2006	Indefinite	Not applicable	3 months in writing
Sir Alan WILSON <i>Director General (to 30 September 2006)</i>	1 August 2004	Term	–	3 months in writing
Ms Caroline WRIGHT <i>Director (from 15 May 2006)</i>	15 May 2006	Indefinite	Not applicable	3 months in writing

1 Ruth Thompson was permanently appointed into her post as a Director General on 3 May 2007.

The details of notice in the above table relates to the notice the individual is required to give if they intend leaving the Department. If the Department decides to terminate a contract it is required to give 6 months notice.

## 17. Salaries and benefits

17.1 The table below contain details of the salaries and benefits in kind paid to Ministers and the Department's senior managers. '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.

Ministers	2006-07		2005-06	
	Salary	Benefits in kind (rounded to nearest £100)	Salary	Benefits in kind (rounded to nearest £100)
Rt. Hon Alan JOHNSON MP <i>Secretary of State (from 6 May 2006)</i>	£63,479 <i>(£75,963 full year equivalent)</i>	–	N/A	–
Rt. Hon Ruth KELLY MP <i>Secretary of State (to 5 May 2006)</i>	£12,484 <i>(£75,963 full year equivalent)</i>	–	£75,733	–
Rt. Hon Beverley HUGHES MP <i>Minister of State</i>	£39,405	–	£34,676 <i>(£38,854 full year equivalent)</i>	–
Jim KNIGHT MP <i>Minister of State (from 6 May 2006)</i>	£33,574 <i>(£39,405 full year equivalent)</i>	–	N/A	–
Bill RAMMELL MP <i>Minister of State</i>	£39,405	–	£32,932 <i>(£38,854 full year equivalent)</i>	–
Rt. Hon Jacqui SMITH MP <i>Minister of State (to 5 May 2006)</i>	£6,476 <i>(£39,405 full year equivalent)</i>	–	£32,378 <i>(£38,854 full year equivalent)</i>	–
Lord Andrew ADONIS <i>Parliamentary Under Secretary of State</i>	£71,784	–	£63,192 <i>(£70,805 full year equivalent)</i>	–
Parmjit DHANDA MP <i>Parliamentary Under Secretary of State (from 6 May 2006)</i>	£25,303 <i>(£29,909 full year equivalent)</i>	–	N/A	–
Maria EAGLE MP <i>Parliamentary Under Secretary of State (to 5 May 2006)</i>	£4,915 <i>(£29,909 full year equivalent)</i>	–	£24,576 <i>(£29,491 full year equivalent)</i>	–
Phil HOPE MP <i>Parliamentary Under Secretary of State</i>	£29,909	–	£26,320 <i>(£29,491 full year equivalent)</i>	–

17.2 The totals above represent payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£60,277 from 1 November 2006, £59,686 from 1 April 2006, 2005-06 £59,095) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Board Members	2006-07		2005-06	
	Salary £000	Benefits in kind (rounded to nearest £100)	Salary £000	Benefits in kind (rounded to nearest £100)
Mr David BELL <i>Permanent Secretary</i>	170-175	–	35-40 <i>(155-160 full year equivalent)</i>	–
Mr Tom JEFFERY <i>Director General</i>	140-145	–	130-135	–
Mr Peter MAKEHAM <i>Director General (to 9 July 2006)</i>	65-70 <i>(155-160 full year equivalent)</i>	–	140-145	–
Mr Stephen MARSTON <i>Director General</i>	130-135	–	65-70 <i>(110-115 full year equivalent)</i>	–
Mr Michael STEVENSON <i>Director (to 1 September 2006)</i>	110-115 <i>(120-125 full year equivalent)</i>	–	120-125	–
Mr Ralph TABBERER <i>Director General</i>	165-170	–	5-10 <i>(155-160 full year equivalent)</i>	–
Mrs Susan THOMAS <i>Director General (to 30 September 2006)</i>	135-140 <i>(125-130 full year equivalent)</i>	–	120-125	–
Ms Ruth THOMPSON <i>Interim Director General (from 15 September 2006)</i>	60-65 <i>(110-115 full year equivalent)</i>	–	N/A	–
Mr Jonathan THOMPSON <i>Director General (from 9 May 2006)</i>	120-125 <i>(135-140 full year equivalent)</i>	–	N/A	–
Sir Alan WILSON <i>Director General (to 30 September 2006)</i>	85-90 <i>(155-160 full year equivalent)</i>	–	150-155	–
Ms Caroline WRIGHT <i>Director (from 15 May 2006)</i>	80-85 <i>(90-95 full year equivalent)</i>	–	N/A	–

17.3 During the year two board members left the Board. Michael Stevenson was compensated in accordance with the terms and conditions of his contract receiving a payment in-lieu of notice, and compensation through the Principal Civil Service Pension Scheme (included in the salary above). Susan Thomas took early retirement from DfES and received pay in lieu of notice and early retirement terms through the Principal Civil Service Pension Scheme in accordance with her terms and conditions of employment (included in the salary above). In addition, she also received an ex-gratia payment of £90,000.

17.4 The non-executive board members, Philip Augar and Christine Gilbert (until 30 September 2006) did not receive any remuneration from the Department. Katherine Kerswell (from 5 October 2006), received £7,500 remuneration from the Department.

17.5 The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

## 18. Non-cash elements of the remuneration package

18.1 The board members' remuneration packages do not contain non-cash benefits.

**19. Pension benefits***Ministers*

19.1 Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended). Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of employee contribution.

19.2 Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are increased annually in line with the changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate.

19.3 Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8% of the ministerial salary.

19.4 The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

19.5 The PCPF have provided the following information in respect of DfES Ministers:

	Accrued pension at age 65 at 31/03/07 £000	Real increase in pension at age 65 £000	CETV at 31/03/07 £000	CETV at 31/03/06 £000	Real increase in CETV £000
Rt. Hon Alan JOHNSON MP <i>Secretary of State (from 5 May 2006)</i>	5-10	0-2.5	70	59	6
Rt. Hon Ruth KELLY MP <sup>1</sup> <i>Secretary of State (to 5 May 2006)</i>	0-5	0-2.5	31	30	0
Rt. Hon Beverley HUGHES MP <i>Minister of State</i>	5-10	0-2.5	58	46	6
Jim KNIGHT MP <i>Minister of State (from 6 May 2006)</i>	0-5	0-2.5	13	6	4
Bill RAMMELL MP <i>Minister of State</i>	0-5	0-2.5	35	25	4
Rt. Hon Jacqui SMITH MP <sup>1</sup> <i>Minister of State (to 5 May 2006)</i>	5-10	0-2.5	40	39	0
Lord Andrew ADONIS <i>Parliamentary Under Secretary of State</i>	0-5	0-2.5	28	12	7
Parmjit DHANDA MP <i>Parliamentary Under Secretary of State (from 6 May 2006)</i>	0-5	0-2.5	8	4	2
Maria EAGLE MP <sup>1</sup> <i>Parliamentary Under Secretary of State (to 5 May 2006)</i>	0-5	0-2.5	30	29	0
Phil HOPE MP <i>Parliamentary Under Secretary of State</i>	0-5	0-2.5	14	6	4

1 CETV at date of leaving

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

19.7 The **real increase in the value of the CETV** takes account of the increase in accrued pension due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

#### *Board members*

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

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

19.10 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

19.11 The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

	Accrued pension at age 60 as at 31/03/07 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/03/07 £000	CETV at 31/03/06 £000	Real increase in CETV £000	Employer contribution to Partnership pension account (nearest £100)
Mr David BELL <i>Permanent Secretary</i>	45-50 plus 135-140 lump sum	12.5-15 plus 42.5-45 lump sum	759	512	235	–
Mr Tom JEFFERY <i>Director General</i>	40-45 plus 120-125 lump sum	0-2.5 plus 5-7.5 lump sum	839	776	35	–
Mr Peter MAKEHAM <i>Director General</i> <i>(to 9 July 2006)</i>	55-60 plus n/a Premium	0-2.5 plus n/a Premium	1,067	1,060	69	–
Mr Stephen MARSTON <i>Director General</i>	35-40 plus 105-110 lump sum	2.5-5 plus 12.5-15 lump sum	523	412	102	–
Mr Michael STEVENSON <sup>1</sup> <i>Director</i> <i>(to 1 September 2006)</i> <b>Pensions Capped</b>	5-10 plus n/a Premium	0-2.5 plus n/a Premium	75	60	12	–
Mr Ralph TABBERER <i>Director General</i>	10-15 plus 40-45 lump sum	0-2.5 plus 5-7.5 lump sum	250	209	32	–
Mrs Susan THOMAS <sup>2</sup> <i>Director General</i> <i>(to 30 September 2006)</i>	40-45 plus 130-135 lump sum	2.5-5 plus 12.5-15 lump sum	929	844	86	–
Mr Jonathan THOMPSON <i>Director General</i> <i>(from 9 May 2006 )</i>	15-20 plus n/a Premium	2.5-5 plus n/a Premium	220	149	49	–
Ms Ruth THOMPSON <i>Interim Director General</i> <i>(from 15 September 2006)</i>	40-45 plus 125-130 lump sum	2.5-5 plus 12.5-15 lump sum	809	730	72	–
Sir Alan WILSON <i>Director General</i> <i>(to 14 September 2006)</i>	0-5 plus n/a Premium	0-2.5 plus n/a Premium	70	53	15	–
Ms Caroline WRIGHT <i>Director</i> <i>(from 15 May 2006)</i>	5-10 plus 25-30 lump sum	2.5-5 plus 7.5-10 lump sum	92	53	29	–

1 CETV is at 1 September 2006

2 CETV is at 30 September 2006

19.13 The **Cash Equivalent Transfer Value (CETV)** is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being

assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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

**20. Amounts payable to third parties for services of senior managers**

20.1 There were no monies paid to third parties for services of executive board members during 2006-07.

*David Bell*  
Accounting Officer

2 July 2007



## Statement of Accounting Officer's Responsibilities

Under Section 5 of the Government Resources and Accounts Act 2000, the HM Treasury has directed the Department for Education and Skills to prepare, for each financial year, Resource Accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, and of its net resource outturn, resources applied to the objectives, recognised gains and losses and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, 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; and
- prepare the accounts on an ongoing basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which 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 HM Treasury and published in *Government Accounting*.

## Statement on internal control

### Scope of responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets, in accordance with the responsibilities assigned to me in Government Accounting. Within the Department I require each Director General, and the heads of certain other units which report directly to me, to sign an annual statement covering risk management and the operation of related controls in their areas of responsibility, to supplement the regular reporting to the Board on their stewardship of risks.

Similarly, the Chief Executives of the Non-Departmental Public Bodies (NDPBs), which are part of the Departmental Group, are responsible for the maintenance and operation of the system of internal control in their individual NDPBs, and have signed a statement relating to those systems which are reproduced in the accounts of each body.

The statements from directorates and NDPBs have been scrutinised and further information sought when necessary. Internal audit has examined the internal control systems and reported upon their effectiveness and the Audit and Risk Committee (ARAC) has made an independent assessment of the contents of the Statement and are satisfied that it is consistent with their knowledge of the Department.

The Departmental Board includes two non-executive members and regularly meets to discuss all strategic policy management issues. This includes providing direction on major policy, delivery and operational issues, reviewing performance and ensuring that the Department is working economically, efficiently and effectively.

### 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 a reasonable, rather than an absolute, assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

### Capacity and capability to manage risk

The Board recognises the importance of leadership to create an environment where risk management is effective and a Departmental Risk Improvement Manager is in place. Two department-wide reviews of our risk management practice have been conducted to assess the progress made over the year regarding the improvement of the Department's risk management capacity and capability. These reviews found that we continue to make sound progress regarding the way in which we manage our risk. They also identified a number of areas of risk management in the Department and its NDPBs which require further improvement. These issues are now being addressed as part of the actions set out in the Department's Risk Improvement Plan.

Risk management continues to be embedded into the Department's finance and programme and project management training which is widely available and achieves high take-up. Guidance on the identification, assessment and active management of risk in the Department is available to all staff. The Department's Risk Improvement Manager has continued to work with corporate policy colleagues to ensure that risk management is further embedded into the Department's corporate governance, finance management, business planning and assurance, and performance management arrangements and improvement activities.

The Department met the Corporate Governance Code of Good Practice criteria requiring a professional Finance Director to be on the Board by December 2006.

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

The Department's approach is to assign risks to those best placed to manage them. Therefore individual managers are responsible to the risk owners (Directors General) for managing risk as they have knowledge of the issues involved and can best manage risk and mitigate the potential impact. All managers are expected to systematically identify, assess and manage risk and document the underlying assumptions. Risk management guiding principles have been developed for NDPB sponsor teams for use with their sponsor bodies.

The risk management process is built into the Department's business planning and reporting processes. With most of the Department's expenditure being on specific programmes, the main risk management arrangements focus on the delivery of this work and the risks associated with changing the way public services are delivered. These are managed through a strong programme and project management framework. There is clear accountability and ownership of risk to ensure that risk is managed at the appropriate level and there are frameworks in place to escalate risks to ensure that significant risks are reported to senior management and, if required, the Board.

Improvements have been made over the year as to the way the Department manages its key risks via the Department's Risk Committee, which is separate from the Board and is chaired by the Director General of Corporate Services. In May 2006 the ARAC conducted a review of the Risk Committee. Sixteen recommendations for improvement were made and all of these have been implemented.

The key risks facing the Department have been identified and agreed by the Risk Committee. The Board regularly reviews these risks and also considers new and emerging threats, ensuring that all are effectively managed. Every quarter I discuss and review key Departmental risks with the Secretary of State.

The Department judged that although it had all the necessary guidance and instructions required for effective control they were dispersed and there was no effective check that they had been read and understood. A review of corporate governance led to the Board identifying ten key areas of compliance – 'the Basics' – that required particular emphasis. This led in turn to all members of the senior civil service receiving a corporate governance handbook, including a checklist covering these ten key areas. As part of the internal control framework, all members of the senior civil service will reaffirm their personal responsibility for their and their staff's compliance with the Basics.

To support improvement in the risk and control framework management a proactive approach to fraud awareness, prevention, detection and investigation is taken by the Department. This has been demonstrated by development of a Fraud Risk Assessment Tool (FRAT) which provides guidance to managers on assessing fraud risks and is part of enhanced risk assessment arrangements that have been put in place in year. Its use will be evaluated in 2007-08 and reviewed by the Fraud Sub Committee.

During the year the National Audit Office (NAO) produced a number of reports which reviewed the value for money of operations involving the Department and its delivery agents. No serious issues were identified. The recommendations in reports by the NAO and the Public Accounts Committee have been carefully considered during the year.

### **Review of effectiveness**

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the Directors General within the Department who have responsibility for the development and maintenance of the internal control framework, Internal Audit, and comments made by the external auditors in their management letter and other reports. I have been advised by the Board, ARAC, the Risk Committee and the Departmental Risk Improvement Manager.

The Department's internal auditors undertake a work programme approved by me to review risk management, internal control and governance. The Head of Internal Audit produces periodic reports on Internal Audit's findings, their assessment of risk management, corporate governance and control standards in the key corporate risks and delivery areas, and areas where action is required to address shortcomings. I meet with the Head of Internal Audit quarterly to discuss her report and consider progress in addressing major concerns. She also prepares an annual report which includes her professional opinion on the effectiveness of the overall systems of internal control and risk management within the Department. In addition, this year, Internal Audit have offered advice to Directorates within the Department to ensure issues identified through the audit work programme have been appropriately reflected in the preparation of the Directorates' annual statements.

For 2006-07 ARAC supported the Accounting Officer by offering objective advice on issues concerning the control and governance of the Department. ARAC was chaired by a non-executive Board member and its role and composition was in line with the Treasury's best practice guidance. During the course of the year, ARAC also reviewed its own effectiveness. Again a number of recommendations for improvement were made and all of these have been implemented.

The Department takes seriously the potential impact that fraud can have on financial control and achievement of objectives, and the Fraud Sub Committee meets on a regular basis. Their role is to give assurance to ARAC that the risks to the Department's business from fraud and financial irregularity are being managed and monitored effectively and is another aspect of good governance.

### **Internal Control**

#### *General*

From April 2006 the Department became responsible for payment of the Dedicated Schools Grant (DSG). This involved the processing of additional £26 billion payments compared to previous years. Internal Audit have reviewed the DSG procedures and concluded that good control systems are in place over the payment process. This being the first year of the grant, assurance has been derived from certification of Section 52 Budget Returns by local authority Chief Finance Officers when they set their budget in spring 2006. This provides assurance that the authority has budgeted to deploy the grant in support of the Schools Budget. Assurance on regularity of expenditure will be from the Chief Finance Officer certification of the Section 52 Outturn Statements around November 2007. This is in line with DSG operational guidance and with the assurance framework outlined in the Accounting Officer's letters of February 2006 to the Comptroller and Auditor General and March 2006 to Local Authority Chief Finance Officers.

2006-07 has seen the second phase of Local Area Agreements. The pooling of budgets across Government departments brings with it questions of how to ensure regularity and this year's control regime rests heavily on the Department for Communities and Local Government's Accounting Officer with whom I have agreed a Memorandum of Understanding. I am satisfied that the arrangements provide a reasonable level of assurance.

The efficiency programme has now delivered £2.46 billion, some 56% of our overall target and despite significant movement in a number of profiles we have maintained a contingency position of over £800 million through over attainment in the Technology Programme. We have also significantly reduced the risk associated with what were our two highest risk initiatives through substantial downwards re-profiling.

#### *Issues*

Our internal control regime has highlighted several policy areas where we have traditionally made direct grant awards to an organisation but where we now need to introduce an element of competition into the funding process. Transitional arrangements to review new grant proposals for 2007-08 have been agreed and reviewed by Internal Audit. The review confirms that action has been taken in accordance with the transitional arrangements agreed by the Accounting Officer. Further work is to be undertaken in 2007-08 which will both enhance value for money and further mitigate potential risks of the payments being regarded as state aid.

There have been some significant underspends in 2006-07. Some major capital programmes, notably Building Schools for the Future, have experienced slippage. The budget reporting regime did not always identify underspends sufficiently early for them to be deployed elsewhere to the Department's maximum benefit. The Department is strengthening its management accounting function to improve the scope and ability for redeploying resources.

Internal Audit and National Audit Office work identified some problems remained in the procurement and management of consultants by some users within the Department. We have continued to tighten the control regime and management information as part of our ongoing activity to improve further in this area.

There has been ongoing work by the Student Loans Company and the Department's Special Investigation Unit investigating Student Loan frauds. A Fraud project was set up in 2006-07 to ascertain the fraud risks and to recommend and implement suitable treatments for these risks. A fraud risk exercise was commissioned and the initial estimate is that the fraud rate is around 0.6% of applications. Improvements have been made to fraud detection and prevention procedures throughout the student finance process to mitigate this risk.

Two other NDPBs have also notified us of frauds that could represent a reputational risk to their sectors. Both Accounting Officers have assured us that these do not represent a material threat to the operational effectiveness of the NDPBs and we are satisfied that appropriate remedial action is in train in both cases.

There have been some examples of NDPBs operating outside their delegated authority. None have been major in their own right, but they highlight the critical relationship between the Department and its key delivery partners, particularly its NDPBs. The actions within the Capability Review Implementation Plan will further strengthen these relationships. The monthly meetings between the Departmental Board and senior officials from our NDPBs, and the various resulting working groups of functional leads from the DfES Group (including Finance Directors) will further strengthen the ongoing dialogue and foster a better shared understanding of areas of common concern.

Whilst recognising the above issues, good progress has been made in resolving them and there are plans in place to further enhance financial control systems and improve practice. As Accounting Officer I am satisfied the above issues do not represent a material threat to operational effectiveness, and that the Department and its NDPBs comply with the Treasury requirements on risk management, internal control and governance.

*David Bell*  
Accounting Officer

2 July 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 Department for Education and Skills for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Scope, Management Commentary and Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

### Basis of audit opinions

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement,



## Statement of Parliamentary Supply

### Summary of Resource Outturn 2006-07

Request for resources	Note	Estimate			Outturn			2006-07 £000	2005-06 £000
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
1	2	58,157,216	(794,920)	57,362,296	56,310,305	(714,061)	55,596,244	1,766,052	27,108,469
2	2	1,539,967	–	1,539,967	1,363,270	748	1,364,018	175,949	1,239,558
3	2	145,796	–	145,796	142,947	–	142,947	2,849	168,856
Total resources	3	<u>59,842,979</u>	<u>(794,920)</u>	<u>59,048,059</u>	<u>57,816,522</u>	<u>(713,313)</u>	<u>57,103,209</u>	<u>1,944,850</u>	<u>28,516,883</u>
Non-operating cost A in A				<u>(553,853)</u>			<u>(531,202)</u>	<u>(22,651)</u>	<u>(400,051)</u>

### Net cash requirement 2006-07

	Note	Estimate	Outturn	2006-07 £000	2005-06 £000
Net cash requirement	4	60,878,917	59,153,647	1,725,270	30,628,392

### Summary of income payable to the Consolidated Fund

(In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics and figures in £000s))

Note	Forecast 2006-07 £000		Outturn 2006-07 £000		
	Income	Receipts	Income	Receipts	
Total	5	156,413	75,300	156,968	154,140

Descriptions of the requests for resources and explanations of variances between Estimate and outturn are given in Note 2 and in the Management Commentary.

The notes on pages 43 to 76 form part of these accounts



**Operating Cost Statement  
for the year ended 31 March 2007**

		2006-07 £000	2005-06 £000
	Note	Staff Costs	Other Costs
		Income	Total
<b>Administration costs:</b>			
Staff costs	9	148,146	151,811
Other administration costs	10		97,436
Operating income	12	(2,937)	(1,522)
<b>Programme costs:</b>			
<b>Request for resources 1:</b>			
Staff costs	9, 11	4,546	3,770
Programme costs	11		56,060,177
Income	12	(713,863)	(390,092)
<b>Request for resources 2:</b>			
Staff costs	9, 11	-	-
Programme costs	11		1,363,270
Income	12	748	420
<b>Request for resources 3:</b>			
Staff costs	9, 11	-	-
Programme costs	11		142,947
Income	12	-	-
<b>Totals</b>		<b>152,692</b>	<b>57,663,830</b>
<b>Net operating cost</b>	3, 13	<b>57,100,470</b>	<b>28,514,934</b>

All income and expenditure reported in the Operating Cost Statement is derived from continuing operations.

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

	2006-07 £000	2005-06 £000
Net gain/(loss) on revaluation of tangible fixed assets	5,476	11,348
Net gain/(loss) on revaluation of intangible fixed assets	299	-
<b>Recognised gains and losses for the financial year</b>	<b>5,775</b>	<b>11,348</b>

The notes on pages 43 to 76 form part of these accounts

**Balance Sheet  
as at 31 March 2007**

	Note	2007 £000	2006 £000
<b>Fixed assets:</b>			
Tangible assets	14	97,217	93,319
Intangible assets	15	13,499	2,344
Loans	16	17,121,751	15,494,238
		<b>17,232,467</b>	<b>15,589,901</b>
Debtors falling due after more than one year	17	111	582
<b>Current assets:</b>			
Debtors	17	272,681	204,546
Loans repayable within 1 year	16	722,338	589,560
Cash at bank and in hand	18	20,266	27,254
		1,015,285	821,360
<b>Creditors (amounts falling due within one year):</b>			
Creditors	19	(427,242)	(533,850)
		(427,242)	(533,850)
<b>Net current assets</b>		<b>588,043</b>	<b>287,510</b>
<b>Total assets less current liabilities</b>		<b>17,820,621</b>	<b>15,877,993</b>
Provisions for liabilities and charges	20	(3,555,725)	(3,563,950)
		<b>14,264,896</b>	<b>12,314,043</b>
<b>Taxpayers' equity:</b>			
General Fund	21	14,244,118	12,298,006
Revaluation reserve	22	20,778	16,037
		<b>14,264,896</b>	<b>12,314,043</b>

David Bell (*Accounting Officer*)

2 July 2007

The notes on pages 43 to 76 form part of these accounts

**Cash Flow Statement  
for the year ended 31 March 2007**

	<b>Note</b>	<b>2006-07 £000</b>	<b>2005-06 £000</b>
Net cash outflow from operating activities	23a	<b>(56,692,511)</b>	(28,398,113)
Capital expenditure and financial investment	23b	<b>(2,306,996)</b>	(2,130,370)
Payments of amounts due to the Consolidated Fund		<b>(131,691)</b>	(107,319)
Financing	23d	<b>59,124,210</b>	30,701,494
Increase/(decrease) in cash in the period	23e	<b>(6,988)</b>	65,692

The notes on pages 43 to 76 form part of these accounts

**Statement of Operating Costs by Departmental Aim and Objectives  
for the year ended 31 March 2007**

	<u>Gross</u>	<u>Income</u>	<u>2006-07 £000 Net</u>	<u>Gross</u>	<u>Income</u>	<u>2005-06 £000 Net</u>
<b>AIM:</b> Our aim is to build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; and achieving excellence in standards of education and levels of skills.						
<b>Objective 1</b>	3,446,834	(5,998)	3,440,836	2,068,945	(986)	2,067,959
<b>Objective 2</b>	6,918,526	(3,762)	6,914,764	8,078,892	(3,524)	8,075,368
<b>Objective 3</b>	8,660,297	(5,436)	8,654,861	7,792,093	(10,186)	7,781,907
<b>Objective 4</b>	3,291,397	(10,703)	3,280,694	3,277,007	(14,353)	3,262,654
<b>Objective 5</b>	8,923,132	(690,153)	8,232,979	7,689,191	(362,145)	7,327,046
<b>Dedicated Schools Grant</b>	26,576,336	-	26,576,336	-	-	-
<b>Net operating cost</b>	<u>57,816,522</u>	<u>(716,052)</u>	<u>57,100,470</u>	<u>28,906,128</u>	<u>(391,194)</u>	<u>28,514,934</u>

The Department's objectives are as follows:

Objective 1 – Safeguard children and young people, improve their life outcomes and general well-being, and break cycles of deprivation.

Objective 2 – Raise standards and tackle the attainment gap in schools.

Objective 3 – All young people to reach 19 ready for skilled employment or higher education.

Objective 4 – Tackle the adult skills gap.

Objective 5 – Raise and widen participation in higher education.

The Dedicated Schools Grant is designed to maintain the school system whilst at the same time contributing to the Department's strategic objectives of raising education standards for all children, closing the education attainment gap and increasing children's health and well-being. Rather than apportion such a large programme across a number of objectives, the Department has chosen to disclose this expenditure separately.

See Note 24 for further analysis of expenditure and capital employed by objective.

The notes on pages 43 to 76 form part of these accounts

## Notes to the Departmental Resource Accounts

### 1. Statement of accounting policies

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

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

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

#### 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.

#### 1.2 Basis of preparation

During 2006-07 the Department had responsibility for eighteen executive Non-Departmental Public Bodies (NDPBs). However, as they are deemed to be outside the Departmental boundary as defined in the *FReM* (chapter 2), their results have not been consolidated into these accounts.

#### 1.3 Tangible fixed assets

The minimum level for capitalisation of capital expenditure as a tangible fixed asset is £2,500. In the case of IT equipment and furniture all items recorded as capital expenditure are capitalised and if they fall below the £2,500 threshold they are bulked together and recorded as bulk assets. The asset value on capitalisation is measured at cost plus any costs, such as installation, directly attributable to bringing them into working condition.

All tangible fixed assets are restated to current value each year. Freehold land and buildings have been restated at current cost using professional valuations in accordance with FRS15 every 5 years and by using appropriate indices supplied by HM Treasury in the intervening years. Other tangible assets have been stated at current cost using appropriate indices published by the Office for National Statistics.

#### 1.4 Depreciation

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives. Freehold land is not depreciated.

Asset lives are normally in the following ranges:

Freehold Land & Buildings	up to 50 years
Furniture & Fittings	7 – 10 years
Plant and Machinery	3 – 10 years
Information Technology	3 – 7 years
Transport Equipment	5 – 8 years

## Notes to the Departmental Resource Accounts *(continued)*

Included in furniture and fittings is a suite of designer office furniture manufactured for ministerial use in 1961 which is currently on loan to the Edward Barnsley workshop where it is on display. The Department has assigned a 20 year asset life to this specific suite of furniture.

A residual value of 20% of the original purchase price is applied to all vehicles purchased.

### 1.5 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,500 or more is incurred. The software licences are amortised over the shorter of the licence period or its useful economic life limited to a range of 2-5 years. The value of the software assets has been stated at current cost, using appropriate indices published by the Office for National Statistics.

In 2006-07 the Department changed the accounting treatment for Teachers' TV programmes. Following the decision to generate income from the sale of DVDs etc., the cost of producing original programmes for broadcast on the Teachers' TV channel has been capitalised on the balance sheet. The Teachers' TV programmes will be amortised over 6 years. Only those programmes with resale potential have been capitalised; news and other current programmes are classed as resource expenditure which are treated as programme expenditure in the Operating Cost Statement.

### 1.6 Investments

The Department currently holds two types of loan on its balance sheet, namely:

- loans to students via the Student Loans Company; and
- loans to schools to fund capital projects.

Loans to students are included in the balance sheet at their revalued cost, which is calculated each year utilising the Retail Price Index.

Loans are issued to voluntary aided schools to fund capital projects. Schools are charged interest in accordance with HM Treasury lending rates. The value shown on the Balance Sheet represents the principal loan value outstanding at 31 March.

Note 16 contains further information on the loans. See note 1.16 for the accounting policies relating to student loan provisions.

### 1.7 Research and development

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

### 1.8 Operating income

Operating income is income which relates directly to the operating activities of the Department. It includes both income appropriated-in-aid as authorised in the Supply Estimate, (such as general administration receipts and income from other departments for payment to DfES's NDPBs), and income to the Consolidated Fund that HM Treasury has agreed should be treated as operating income. It is stated net of VAT.

## Notes to the Departmental Resource Accounts *(continued)*

### 1.9 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or programme follows the definition of administration costs set out by HM Treasury in its *'Consolidated Budgeting Guidance'*.

Administration costs reflect the costs of running the Department as defined under the administration cost control regime, together with associated operating income. Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department. The Department has authority from HM Treasury to treat the staff costs of the Centre for Procurement Performance as programme costs because they relate directly to programme delivery.

### 1.10 Capital charge

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

- Consolidated Fund balances and Office of the Paymaster General bank balances where the charge is nil.
- Student loans provisions where the charge is 2.2% in line with the HM Treasury long term provisions.

### 1.11 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used.

### 1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and non-contributory except in respect of dependants' benefits. The Department recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

### 1.13 Leases

Operating leases are charged to the Operating Cost Statement as expenditure is incurred. The Department does not currently hold any finance leases.

### 1.14 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, and for compensation payments payable to employees who take early severance. The Department provides for the costs when the early departure programme has been announced and is binding on the Department. In earlier years the Department could, 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 balance of pre-funded costs is included in the debtor balance as a prepayment.

## Notes to the Departmental Resource Accounts *(continued)*

### 1.15 Grants payable

The majority of grants made by the Department are recorded as expenditure in the period in which the claim is paid, as the grant funding cannot be directly related to activity in a specific period. The claims are deemed to be the only appropriate and measurable activity that truly creates an entitlement for the recipient. However, recognition of the entitlement of grant varies according to the individual programme. Where entitlement to the grant has arisen during the period it will be accrued in the Operating Cost Statement and shown as a liability on the Balance Sheet.

### 1.16 Provisions

The Department has created provisions for the following liabilities:

- Early departure costs.
- Student support costs related to student loans.
- Property costs.
- Partnerships for Schools payments.
- Centre for British Teachers pension costs.

The early departure costs provision is based on the future costs of those staff who have taken early release from the date they leave the Department up to the date they retire and the pension costs are met from the PCSPS. The cash flows have been discounted using the HM Treasury discount rate of 2.2% to reflect the current value of the liabilities. The student support provisions are based on the Department's best estimate of the amount and timing of the future liabilities to the government of subsidising interest on loans and potential loan write offs. The Department's accounting policy for accounting for the interest subsidy provision follows the Financial Reporting Advisory Board instructions. Given the long term nature of both provisions, the time value of money is significant, the provisions are discounted using the HM Treasury discount rate of 2.2% in real terms.

For further information on the accounting policies relating to student loans see Note 1.6.

The property provision recognises the liabilities related to properties where the lease could not be reassigned following the closure of the Training and Enterprise Councils (TECs). The provision has been extended to include other onerous lease contracts for properties used by former NDPBs closed as a result of changes in programme delivery. The disposal of the properties is being managed by the Department's Corporate Services specialists, who anticipate that all leases will either be reassigned or expire by 2018. The size of the provision is based on the costs up to the planned disposal date of individual properties, net of any contributions towards costs. The estimated cash flows have been discounted using the HM Treasury discount rate of 2.2%.

The Partnerships for Schools (PFS) provision recognises the liability to fund performance related payments payable to Partnerships UK for performance achieved during the current financial year. The provision is based on grant in aid issued in year.

The Centre for British Teachers (CfBT) provision recognises the liability to fund the pension deficit owed to the London Pensions Fund Authority in relation to the CfBT staff affected by the termination of the contract between DfES and CfBT. The provision is based on the current best actuarial estimate of the potential shortfall. The pension fund is being revalued by the Government Actuary's Department and the actual liability will be reported during 2007-08.



## Notes to the Departmental Resource Accounts *(continued)*

### 1.17 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Government Accounting*.

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

### 1.18 Value Added Tax

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

Notes to the Departmental Resource Accounts *(continued)*

## 2. Analysis of net resource outturn by Estimate Line

						Outturn	2006-07 £000 Estimate		2005-06 £000
	Admin	Other current	Grants expenditure	Gross resource expenditure	A in A	Net total	Net total	Net total outturn compared with Estimate	Prior year outturn
<b>Request for resources – 1 To help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; and achieving excellence in standards of education and levels of skills</b>									
<b>Spending in Departmental Expenditure Limits</b>									
<i>Central Government spending</i>									
A Activities to support all functions	245,582	47,378	4,567	297,527	(10,094)	287,433	364,907	77,474	275,640
B Support for Schools and Teachers not paid through LEAs		18,422	1,200,948	1,219,370	(708)	1,218,662	1,390,913	172,25	1,915,437
C Support to Children and Families not paid through LAs		77,454	584,946	662,400	(3,561)	658,839	705,112	46,273	665,559
D Higher Education		8,438	74,295	82,733	(692)	82,041	106,626	24,585	89,163
E Higher Education Receipts from DTI				-	(279,119)	(279,119)	(279,118)	1	(365,701)
F Further Education, Adult Learning and Skills for Lifelong Learning and International Programmes		79,540	199,205	278,745	(12,491)	266,254	301,303	35,049	375,358
G Support for Students in Higher Education			1,811,146	1,811,146	(396,224)	1,414,922	1,630,891	215,969	1,359,928
H Compensation to former College of Education Staff			11,340	11,340		11,340	11,360	20	11,239
<i>Support for local authorities</i>									
I Current Grants for LEAs to Support Schools and Teachers			4,172,298	4,172,298		4,172,298	4,024,172	(148,126)	3,933,063
J Capital Grants for LEAs to Support Schools			2,207,924	2,207,924	(93)	2,207,831	3,035,240	827,409	2,399,851
K Higher Education Fees and Awards through LEAs			3,077	3,077		3,077	11,464	8,387	10,996
L Current Grants to LAs to support Children and Families			228,752	228,752		228,752	262,072	33,320	242,342
M Capital Grants to LAs to support Children and Families			49,562	49,562		49,562	41,140	(8,422)	18,876
N Dedicated School Grants			26,576,336	26,576,336		26,576,336	26,621,417	45,081	-

Notes to the Departmental Resource Accounts *(continued)*

					Outturn	2006-07 £000 Estimate		2005-06 £000	
	Admin	Other current	Grants expenditure	Gross resource	A in A	Net total	Net total	Net total outrun compared with Estimate	Prior year outrun
<b>Spending in Annually Managed Expenditure</b>									
<i>Central Government spending</i>									
O Loans to students			(139)	(139)	(11,079)	(11,218)	–	11,218	–
<b>Non-Budget</b>									
P Grant in Aid to NDPBs supporting Schools			840,595	840,595		840,595	842,841	2,246	766,286
Q Grant in Aid to NDPBs supporting Children and Families			107,735	107,735		107,735	107,624	(111)	102,926
R Loans to Students and Grant in Aid to NDPBs supporting Higher Education			6,959,535	6,959,535		6,959,535	7,030,710	71,175	6,198,496
S Grant in Aid to NDPBs supporting Further Education, Adult Education and Skills and Lifelong Learning			10,654,986	10,654,986		10,654,986	11,015,675	360,689	10,052,063
<b>Spending in Departmental Expenditure Limits</b>									
<i>Support for local authorities</i>									
T Current Grants to Local Area Agreements to support Children and Families			146,383	146,383		146,383	137,947	(8,436)	56,947
<b>Total</b>	<b>245,582</b>	<b>231,232</b>	<b>55,833,491</b>	<b>56,310,305</b>	<b>(714,061)</b>	<b>55,596,244</b>	<b>57,362,296</b>	<b>1,766,052</b>	<b>27,108,469</b>
<b>Request for resources 2 – Promoting the physical, intellectual and social development of babies and young children through Sure Start, Early Years provision and Childcare</b>									
<i>Central Government spending</i>									
A Sure Start Current Grants not through LAs		20,913	13,682	34,595	748	35,343	73,674	38,331	485,487
<i>Support for local authorities</i>									
B LA Current Grants			817,066	817,066		817,066	816,082	(984)	440,491
C LA Capital Grants			286,586	286,586		286,586	418,025	131,439	265,795
D LA Current Grants for Local Area Agreements			207,326	207,326		207,326	207,326	–	47,785
<i>Central Government spending</i>									
E Sure Start Schools Current Grants not through LAs			17,697	17,697		17,697	24,860	7,163	–
<b>Total</b>	<b>–</b>	<b>20,913</b>	<b>1,342,357</b>	<b>1,363,270</b>	<b>748</b>	<b>1,364,018</b>	<b>1,539,967</b>	<b>175,949</b>	<b>1,239,558</b>

Notes to the Departmental Resource Accounts *(continued)*

					Outturn	2006-07 £000 Estimate		2005-06 £000	
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net total	Net total	Net total outrun compared with Estimate	Prior year outrun
<b>Request for resources 3 – Tackling child poverty and social exclusion by helping vulnerable children and young people, and their families to break the cycle of deprivation and disadvantage through the Children’s Fund</b>									
<i>Central Government spending</i>									
A Children’s Fund		388	39,035	39,423		39,423	39,870	447	39,687
<i>Support for local authorities</i>									
B LA Current Grants			103,524	103,524		103,524	105,926	2,402	129,169
<b>Total</b>	<b>-</b>	<b>388</b>	<b>142,559</b>	<b>142,947</b>	<b>-</b>	<b>142,947</b>	<b>145,796</b>	<b>2,849</b>	<b>168,856</b>
<b>Resource Outturn</b>	<b>245,582</b>	<b>252,533</b>	<b>57,318,407</b>	<b>57,816,522</b>	<b>(713,313)</b>	<b>57,103,209</b>	<b>59,048,059</b>	<b>1,944,850</b>	<b>28,516,883</b>

**Explanation of variances**

RfR1 net outturn is £1.7 billion (3%) lower than the voted Supply Estimate budget. The main contributory programmes (in descending order of monetary value) are:

- a) Estimate Line J – capital grants to schools is underspent by £827.4 million
- b) Estimate Line S – Grant in Aid funding to the Learning and Skills Council was £360.7 million lower than planned because their non-cash costs were higher than expected.
- c) Estimate Line G – support for students in higher education was £215.9 million lower than planned because of non-cash costs:
  - £109m credit adjustment for a reduction of the debt sale provision that had not been included in the Supply Estimate.
  - The Department did not need to utilise the £100m contingency on the non-cash related provision movements.
- d) Estimate Line B – programmes providing support for non-Local Authority schools and teachers was £172.4 million underspent because of underspends on a large number of projects including Academies revenue grant expenditure.

RfR2 – the £175.9 million (11%) underspend is largely due to slippage on Children’s Centre capital building projects. The RfR2 appropriations in aid is a net debit because of an adjustment to correct an over-accrual of income in earlier years.

RfR3 net outturn is £2.8 million (2%) lower than the voted Supply Estimate budget.

Detailed explanations of the variances are given in the Management Commentary.

Notes to the Departmental Resource Accounts *(continued)*

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

3(a) Reconciliation of net resource outturn to net operating cost		2006-07	2005-06		
		£000	£000		
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	2	57,103,209	59,048,059	1,944,850	28,516,88
Prior period adjustments					
Non-supply income (CFERs)	5	(2,739)	–	2,739	(1,949)
Non-supply expenditure	21				
Net operating cost		57,100,470	59,048,059	1,947,589	28,514,934

## 3(b) Outturn against final Administration Budget

	Budget	2006-07 £000 Outturn	2005-06 £000 Outturn
Gross Administration Budget	253,714	245,582	241,063
Income allowable against the Administration Budget	(4,123)	(2,937)	(1,522)
Net outturn against final Administration Budget	249,591	242,645	239,541

## 4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource Outturn	2	59,048,059	57,103,209	1,944,850
Capital				
Acquisition of fixed assets	14, 15	10,170	13,882	(3,712)
Investments				
Loans issued in year	16	3,575,000	2,954,116	620,884
Repurchase of sold loans	16		56	(56)
Non-operating A in A				
Proceeds of fixed asset disposals	7	(575)	(15)	(560)
Repayment of loans	7	(553,278)	(531,187)	(22,091)
Accruals adjustments				
Non-cash items	10	(1,283,634)	(1,112,992)	(170,642)
Changes in working capital other than cash		(10,393)	166,934	(177,327)
Changes in creditors falling due after more than one year				
Use of provisions		93,568	559,644	(466,076)
Excess cash receipts surrenderable to the Consolidated Fund				
<b>Net cash requirement</b>		<b>60,878,917</b>	<b>59,153,647</b>	<b>1,725,270</b>

The Department has stayed within £1.7 billion (3%) of its cash requirement limit. This is mainly due to the £1.9 billion underspend on the net resources limit. Further information on the variances can be found in the financial performance section of the Management Commentary.

## Notes to the Departmental Resource Accounts *(continued)*

### 5. Analysis of income payable to the Consolidated Fund

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

Note	Forecast 2006-07		Outturn 2006-07	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess A in A				
Other operating income and receipts not classified as A in A			2,739	<i>2,925</i>
			<u>2,739</u>	<u><i>2,925</i></u>
Non-operating income and receipts – excess A in A				
Other non-operating income and receipts not classified as A in A			154,229	<i>151,215</i>
Other amounts collectable on behalf of the Consolidated Fund	156,413	<i>75,300</i>		
Excess cash surrenderable to the Consolidated Fund				
Total income payable to the Consolidated Fund	<u>156,413</u>	<u><i>75,300</i></u>	<u>156,968</u>	<u><i>154,140</i></u>

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

Note	2006-07 £000	2005-06 £000
Operating income	12	716,052
Adjustments for transactions between RfRs		–
Gross income		<u>716,052</u>
Income authorised to be appropriated-in-aid		713,313
Operating income payable to the Consolidated Fund	5	<u>2,739</u>

### 7. Non-operating income – classified as A in A

	2006-07 £000	2005-06 £000
Principal repayments of student loans	531,126	399,916
Principal repayments of loans to schools	61	124
Proceeds from disposal of fixed assets	15	11
Non-operating income – classified as A in A	<u>531,202</u>	<u>400,051</u>

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

	Income £000	Receipts £000
Student loans interest repayments	<u>150,573</u>	<u>151,215</u>

The Department received £151,215,000 during the year for repayments of interest on student loans which, under HM Treasury rules, are not retained by the Department. As a result they are not recognised as income in the Operating Cost Statement and are paid to the Consolidated Fund.

## Notes to the Departmental Resource Accounts *(continued)*

### 9. Staff numbers and related costs

Staff costs consist of:

	2006-07 £000	2005-06 £000
	Total	Total
	Permanently employed staff	Other <sup>1</sup>
	Ministers	Special advisers
Wages and salaries	119,656	114,363
Social security costs	9,726	9,605
Other pension costs	23,310	23,106
<b>Sub Total</b>	<b>152,692</b>	<b>147,074</b>
Charged to admin staff costs	148,146	144,442
Charged to programme costs	4,546	2,632
	<b>152,692</b>	<b>147,074</b>
Less recoveries in respect of outward secondments	(1,368)	(1,368)
<b>Total Net Costs</b>	<b>151,324</b>	<b>145,706</b>

<sup>1</sup> The fees paid for agency staff is a flat hourly fee, including social security, holiday pay, pension costs etc. For the purposes of this note the total amount is disclosed as wages and salaries.

All early departure costs are now included within other administration (note 10) rather than staff costs.

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

For 2006-07, employers' contributions of £23,259,135 were payable to the PCSPS (2005-06: £23,092,244) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £47,869.74 (2005-06: £49,412.50) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2005-06: 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,916.89, (2005-06: £3,319.44), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £4,709.39. Contributions prepaid at that date were nil.

Three persons (2005-06: one person) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £4,021.25 (2005-06: £1,277.86).

#### Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

Notes to the Departmental Resource Accounts *(continued)*

Objective	Total	Permanent staff	Others <sup>1</sup>	Ministers	2006-07	2005-06
					Number Special advisers	Number Total
1	1,291.0	1216.0	72.0	2.0	1.0	1,225.2
2	793.5	754.0	38.0	1.0	0.5	1,194.7
3	676.5	651.0	24.0	1.0	0.5	742.2
4	478.5	468.0	8.0	2.0	0.5	291.2
5	343.5	335.0	7.0	1.0	0.5	429.7
Number of staff charged to admin costs	3,583.0	3,424.0	149.0	7.0	3.0	3,883.0
Number of staff charged to Programme expenditure						
Objective						
1	5.0	5.0				62.0
2	5.0	5.0				4.0
3	5.0	5.0				4.0
4	5.0	5.0				4.0
5	5.0	5.0				4.0
	25.0	25.0				78.0
TOTAL	3,608.0	3,449.0	149.0	7.0	3.0	3,961.0

<sup>1</sup> The fee paid for agency staff is a flat hourly fee, including social security, holiday pay, pension costs etc. For the purposes of this note the total amount is disclosed as wages and salaries.

The Department's 2006-07 objectives are as follows:

Objective 1 – Safeguard children and young people, improve their life outcomes and general well-being, and break cycles of deprivation.

Objective 2 – Raise standards and tackle the attainment gap in schools.

Objective 3 – All young people to reach 19 ready for skilled employment or higher education.

Objective 4 – Tackle the adult skills gap.

Objective 5 – Raise and widen participation in higher education.



Notes to the Departmental Resource Accounts *(continued)*

## 10(a) Other administration costs

	Note	2006-07 £000	2005-06 £000
Rentals under operating leases:			
Hire of plant and machinery		368	423
Other operating leases		19,380	17,908
18,331			
Non-cash items (administration costs note a):			
Depreciation of fixed assets			
Civil Estate		1,487	1,373
Other tangible fixed assets		6,597	6,353
Amortisation of intangible fixed assets		500	444
Permanent diminution in fixed asset values		874	1,688
Loss on disposal of fixed assets		63	60
Cost of capital charge:			
Civil Estate		1,461	1,262
Other items		(61)	(216)
Auditor's remuneration		300	300
Early departure provisions:	20		
Provided for in year		12,582	7,431
Change in interest rate		–	672
Provision not required written back		(495)	–
Unwinding of discount		461	462
Total administration non-cash items		23,769	19,829
Professional fees		7,779	6,959
Travel and subsistence		7,186	7,192
Consultancy		5,285	4,500
Rates and service charge		5,757	5,877
Computers and telecoms costs		7,651	7,821
Utilities		2,382	1,673
Advertising and publicity		743	749
Other office services		6,998	8,919
Early departure costs not provided for		254	(35)
Other expenditure		9,884	8,108
<b>Total</b>		<b>97,436</b>	<b>89,923</b>

The auditor's remuneration represents the cost of the audit of the financial statements carried out by the Comptroller and Auditor General. The auditor received no remuneration for non-audit work.

The 'Other expenditure' heading above includes £7,500 remuneration paid to Katherine Kerswell, the newly appointed non-executive board member (to replace Christine Gilbert). The other non-executive board members, Philip Augar and Christine Gilbert, did not receive any remuneration from the Department.

## 10(b) Total non-cash transactions

The non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Note 4 and in the Reconciliation of Operating Costs to Operating Cash Flows in Note 23a comprises:

	2006-07 £000	2005-06 £000
Other administration costs – non-cash items (as Note 10a above)	23,769	19,829
Programme non-cash costs charged to operating expenditure (see Note 11)	1,485,451	511,904
Less non-cash income		
Profit on sale of fixed assets	(4)	(4)
Student loans capitalised interest	(396,224)	
<b>Total non-cash transactions</b>	<b>1,112,992</b>	<b>531,729</b>

Notes to the Departmental Resource Accounts *(continued)*

## 11. Programme costs

	Note	2006-07 £000	2005-06 £000
Current grants and other current expenditure		56,070,943	28,137,736
Research and development costs		14,546	14,754
Non-cash items			
Cost of capital on programmes		275,890	236,703
Depreciation		2,670	550
Permanent diminution in fixed asset values		-	-
Provisions:	20		
Provided in year		721,933	631,608
Change in interest rate		-	(435,846)
Provision not required written back		(113,697)	(6,952)
Unwinding of discount		74,995	67,249
Student loans capitalised interest	16	-	(351,887)
Student loans domicile adjustment	16	22	6,587
Repayment of Teachers' Loans	16	21,549	14,064
Student loan interest subsidy inflation adjustment	21	502,089	349,828
<b>Total programme costs</b>		<b>57,570,940</b>	<b>28,664,394</b>

In previous years the capitalisation of the interest on student loans has been offset against expenditure. In 2006-07 HM Treasury changed the classification of this transaction from a negative expenditure adjustment to income (see Note 12 below).

## 12. Income

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see Note 6). In 2006-07, all operating income not classified as Appropriations in Aid was within public expenditure.

	RfR 1	RfR 2	RfR 3	2006-07 £000 Total	2005-06 £000 Total
Administration income:					
Profit on disposal on assets	(4)			(4)	(4)
Rental income from external tenants	(292)			(292)	(234)
Other miscellaneous	(2,641)			(2,641)	(1,284)
	(2,937)	-	-	(2,937)	(1,522)
Programme income:					
Income from DTI for payment to HEFCE	(279,119)			(279,119)	(365,701)
Rental income from within DfES group	(5,177)			(5,177)	(5,346)
Student loans capitalised interest	(396,224)			(396,224)	-
Other income	(30,604)	748		(29,856)	(16,676)
CFER miscellaneous income	(2,739)			(2,739)	(1,949)
	(713,863)	748	-	(713,115)	(389,672)
<b>Total</b>	<b>(716,800)</b>	<b>748</b>	<b>-</b>	<b>(716,052)</b>	<b>(391,194)</b>

Programme income has risen significantly during 2006-07 due to the reclassification of interest added to student loans. In previous years the capitalisation of the interest has been offset against expenditure, but HM Treasury have changed the classification to income thereby increasing the 2006-07 total programme income figure to £713,115,000 (2005-06: £389,672,000).

Notes to the Departmental Resource Accounts *(continued)*

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

	<b>£000</b>	<b>2006-07</b>	<b>2005-06</b>
	<b>Estimate</b>	<b>£000</b>	<b>£000</b>
		<b>Outturn</b>	<b>Outturn</b>
<b>Spending body:</b>			
Grant in aid to Non-Departmental Public Bodies (NDPBs):			
Adult Learning Inspectorate (ALI)	27,100	21,729	25,830
British Educational Communications and Technology Agency (BECTA)	10,600	11,100	13,547
Children and Family Court Advisory and Support Services (CAFCASS)	104,600	104,373	100,865
Higher Education Funding Council for England (HEFCE)	6,976,000	6,906,532	6,572,856
Investors in People UK Ltd (IiP UK)	5,600	5,523	5,652
Learning and Skills Council (LSC)	10,666,400	10,328,177	9,818,239
National College for School Leadership (NCSL)	97,200	89,072	80,419
Office for Fair Access (OFFA)	500	440	385
Office of the Children's Commissioner (OCC)	3,000	3,362	2,061
Partnerships for Schools (Pfs)	6,500	5,168	4,483
Qualifications and Curriculum Authority (QCA)	150,900	144,046	133,894
Quality Improvement Agency (QIA) <sup>1</sup>	90,000	82,773	–
School Food Trust (SFT) <sup>1</sup>	7,000	5,737	–
Sector Skills Development Agency (SSDA)	75,800	72,739	67,608
Student Loans Company Ltd (SLC)	54,200	52,263	49,990
Training and Development Agency for Schools (TDA)	721,200	729,175	667,510
Local Authorities <sup>2</sup>	35,680,811	34,798,741	7,545,316
Other DfES	4,370,648	3,739,520	3,426,279
<b>Net operating cost</b>	<b>59,048,059</b>	<b>57,100,470</b>	<b>28,514,934</b>

<sup>1</sup> QIA and SFT became operational on 1 April 2006.

<sup>2</sup> The amount paid to Local Authorities has risen significantly this year because from 1 April 2006 the Department became responsible for paying Dedicated Schools Grants. These grants were previously issued by the Department for Communities and Local Government.

Notes to the Departmental Resource Accounts *(continued)*

## 14. Tangible fixed assets

	Land & Buildings £000	Plant & Machinery £000	Information Technology £000	Transport Equipment £000	Furniture & Fittings £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2006	79,976	448	31,839	559	15,753	128,575
Additions	–	34	6,575	–	1,388	7,997
Disposals	–	(33)	(1,729)	(128)	(1,062)	(2,952)
Revaluations	6,265	(19)	(1,308)	6	392	5,336
<b>At 31 March 2007</b>	<b>86,241</b>	<b>430</b>	<b>35,377</b>	<b>437</b>	<b>16,471</b>	<b>138,956</b>
<b>Depreciation</b>						
At 1 April 2006	13,782	216	12,653	193	8,412	35,256
Provided in year	2,078	47	4,443	64	2,043	8,675
Disposals	–	(33)	(1,729)	(54)	(1,062)	(2,878)
Revaluations	1,101	(8)	(580)	2	171	686
<b>At 31 March 2007</b>	<b>16,961</b>	<b>222</b>	<b>14,787</b>	<b>205</b>	<b>9,564</b>	<b>41,739</b>
<b>Net book value at 31 March 2007</b>	<b>69,280</b>	<b>208</b>	<b>20,590</b>	<b>232</b>	<b>6,907</b>	<b>97,217</b>
<b>Net book value at 31 March 2006</b>	<b>66,194</b>	<b>232</b>	<b>19,186</b>	<b>366</b>	<b>7,341</b>	<b>93,319</b>
<b>Asset financing:</b>						
Owned	69,280	208	20,590	232	6,907	97,217
<b>Net book value at 31 March 2007</b>	<b>69,280</b>	<b>208</b>	<b>20,590</b>	<b>232</b>	<b>6,907</b>	<b>97,217</b>

Revaluations of the land and buildings (apart from the National College for School Leadership) were carried out by the external surveyors, Donaldson's, during 2005-06. The valuations were carried out on an existing use basis in accordance with the RICS Appraisal and Valuation Manual.

At the end of the year all properties have been revalued using indices provided by HM Treasury and all other tangible assets were revalued on the basis of monthly indices, provided by the Office for National Statistics.

Included in the land and buildings net book value is £26.6 million for the National College for School Leadership. As this property is used by the NDPB, and is not used for the administration of the Department, the cost of capital and depreciation charges are classified as programme costs. This property has not been professionally revalued during the year and will be due for revaluation during 2007-08.

Notes to the Departmental Resource Accounts *(continued)*

## 15. Intangible fixed assets

	Software Licences £000	Teachers' TV Programmes £000	Total £000
<b>Cost or valuation</b>			
At 1 April 2006	4,775	–	4,775
Additions	632	12,851	13,483
Disposals	–	–	–
Revaluations	(260)	357	97
<b>At 31 March 2007</b>	<b>5,147</b>	<b>13,208</b>	<b>18,355</b>
<b>Amortisation</b>			
At 1 April 2006	2,431	–	2,431
Charged in year	500	2,079	2,579
Disposal	–	–	–
Revaluations	(154)	–	(154)
<b>At 31 March 2007</b>	<b>2,777</b>	<b>2,079</b>	<b>4,856</b>
<b>Net book value at 31 March 2006</b>	<b>2,344</b>	<b>–</b>	<b>2,344</b>
<b>Net book value at 31 March 2007</b>	<b>2,370</b>	<b>11,129</b>	<b>13,499</b>

Software licences were revalued in March 2007 on the basis of monthly indices provided by the Office for National Statistics.

The Department's decision to raise revenues from the sale of both licences and programmes has resulted in a change in accounting treatment (see Note 1). The cost of programmes produced to date, previously treated as an in year expense, are now capitalised on the balance sheet. The value of the Teachers' TV assets is based on the actual cost of production, revalued annually to modified historic value using the retail price index (RPI).

## 16. Loans

	Students £000	Schools £000	Total £000
Balance at 1 April 2006	15,492,884	1,354	15,494,238
Amounts previously transferred to current assets 2005-06	589,500	60	589,560
Total loans outstanding at 1 April 2006	<b>16,082,384</b>	<b>1,414</b>	<b>16,083,798</b>
Transfer opening balance to WAG	(880,973)		(880,973)
Student loans domicile adjustment	(22)		(22)
Repurchase of sold loans	56		56
New loans	2,954,116		2,954,116
Interest added	396,224		396,224
Repayments	(681,699)	(61)	(681,760)
Write offs	(5,801)		(5,801)
Repayment of Teachers' Loans	(21,549)		(21,549)
	<b>17,842,736</b>	<b>1,353</b>	<b>17,844,089</b>
<b>Loans repayable in 12 months transferred to current assets</b>	<b>722,274</b>	<b>64</b>	<b>722,338</b>
<b>Balance at 31 March 2007</b>	<b>17,120,462</b>	<b>1,289</b>	<b>17,121,751</b>

Student loans are part of the Government's package of financial support to students embarking on a course of higher education to help students meet the cost of living. The Student Loans Company issues and administers the loans on behalf of DfES, the Student Awards Agency for Scotland, the Department for Employment and Learning Northern Ireland and the Welsh Assembly Government.

## Notes to the Departmental Resource Accounts *(continued)*

The figures above include non-cash repayment transactions relating to the pilot initiative called the Repayment of Teachers' Loans Scheme (RTL) which was set up in 2002-03 and ran until 2005-06. Under the terms of the scheme the Department meets the cost of repaying newly qualified teachers' student loans if they meet certain criteria e.g. they must be employed in specific shortage subjects. The Department has provided for non-repayment of loans and the interest subsidy costs (see Note 20).

During the year the Welsh Assembly Government (WAG) took over legal responsibility for the payment and recovery of income contingent loans and grants for Welsh domiciled student borrowers. In accordance with HM Treasury instructions, this transfer was treated as a machinery of government change and the transfer of budget and payments was back dated to 1 April 2006. £880.9 million for outstanding income contingent loans as at 1 April 2006 was transferred to the Assembly. The £17.8 billion closing loan stock on the DfES balance sheet comprises income contingent loans for English domiciled borrowers and the older mortgage style loans for both English and Welsh domiciled borrowers.

The Chancellor announced in the 2007 Budget Statement the Government's intention to sell student loans totalling around £6 billion between 2008-09 and 2010-11. The Department is working with HM Treasury on a strategy for the future sale and during 2007-08 will be assessing the impact on the Department's balance sheet and budgets.

The Schools Loans above are loans issued to voluntary aided schools for capital projects under Schedule 3 of the Schools Standards & Framework Act 1998. Interest is charged in accordance with the HM Treasury lending rates. At 31 March 2007 there were 3 outstanding loans (3 in 2005-06), and all balances are scheduled for repayment by 2025.

### 17. Debtors

#### 17(a) Analysis by type

	2006-07 £000	2005-06 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	5,192	20,657
VAT	3,728	–
Deposits and advances	2,992	1,651
Other debtors	811	1,953
Prepayments and accrued income	246,044	180,285
Amounts due from the Consolidated Fund for Supply but undrawn at year end	13,914	–
	<b>272,681</b>	<b>204,546</b>
<b>Amounts falling due after more than 1 year:</b>		
Prepayment of early departure pre-funding	111	582
	<b>272,792</b>	<b>205,128</b>

Included within the debtors above is £11,372,000 (2005-06: £8,545,000) that will be due to the Consolidated Fund once the debts are collected, which relates to accrued interest on student loans repayments.

#### 17(b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07 £000	2005-06 £000	2006-07 £000	2005-06 £000
Balances with other central government bodies	98,985	76,193	111	582
Balances with local authorities	125,458	98,702	–	–
Balances with NHS Trusts	2,684	14	–	–
Balances with public corporations and trading funds	–	–	–	–
Sub total – intra-government balances	<b>227,127</b>	<b>174,909</b>	<b>111</b>	<b>582</b>
Balances with bodies external to government	45,554	29,637	–	–
<b>Total debtors at 31 March</b>	<b>272,681</b>	<b>204,546</b>	<b>111</b>	<b>582</b>

Notes to the Departmental Resource Accounts *(continued)*

## 18. Cash at bank and in hand

	2006-07 £000	2005-06 £000
Balance at 1 April	27,254	(38,438)
Net change in cash balances	(6,988)	65,692
Balance at 31 March	<u>20,266</u>	<u>27,254</u>
The following balances at 31 March are held at:		
Office of HM Paymaster General	20,175	26,598
Commercial banks and cash in hand	91	656
Balance at 31 March	<u>20,266</u>	<u>27,254</u>

## 19. Creditors

## 19(a) Analysis by type

	2006-07 £000	2005-06 £000
<b>Amounts falling due within one year:</b>		
VAT	–	1,870
Other taxation and social security	3,982	4,168
Trade creditors	55,019	34,851
Other creditors	2,589	2,380
Accruals and deferred income	320,100	454,783
Amounts issued from the Consolidated Fund for Supply but not spent at year end	–	15,522
Consolidated Fund extra receipts due to be paid to the Consolidated Fund		
received	34,180	11,731
receivable	11,372	8,545
	<u>427,242</u>	<u>533,850</u>

## 19(b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07 £000	2005-06 £000	2006-07 £000	2005-06 £000
Balances with other central government bodies	85,347	81,691	–	–
Balances with local authorities	144,058	139,499	–	–
Balances with NHS Trusts	2,393	90	–	–
Balances with public corporations and trading funds	–	1,610	–	–
Sub total – intra-government balances	<u>231,798</u>	<u>222,890</u>	–	–
Balances with bodies external to government	195,444	310,960	–	–
Total creditors at 31 March	<u>427,242</u>	<u>533,850</u>	–	–

Notes to the Departmental Resource Accounts *(continued)*

## 20. Provisions for liabilities and charges

	Early departure costs £000	Student loans write off £000	Student loans interest subsidy £000	Student loans debt sale subsidy £000	Property provision £000	Partner- ships for Schools (PFS) £000	CfBT pension provision £000	Total £000
Balance at 1 April 2006	30,853	1,729,320	1,271,288	491,187	9,522	13,780	18,000	3,563,950
Transfer opening balance to WAG		(46,601)	(91,958)					(138,559)
Provided in year	12,582	221,949	488,054		795	8,135	3,000	734,515
Provisions not required written back	(495)			(109,071)		(4,626)		(114,192)
Provisions utilised in the year	(14,573)	(5,801)	(507,599)	(33,666)	(1,130)	(1,615)	(1,061)	(565,445)
Unwinding of discount	461		63,980	10,806	209			75,456
<b>Balance at 31 March 2007</b>	<b>28,828</b>	<b>1,898,867</b>	<b>1,223,765</b>	<b>359,256</b>	<b>9,396</b>	<b>15,674</b>	<b>19,939</b>	<b>3,555,725</b>

*Early departure costs*

The Department meets the additional costs of benefits beyond normal PCSPS benefits in respect of employees who retire early, and compensation payments payable to employees who take early severance. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury cost of capital rate of 2.2% in real terms.

There are no additional discounted early departure costs which were funded under the former 80/20 cost sharing scheme between HM Treasury and the Department (2005-06: £1.3m).

*Student loans*

The student loans write off provision was created to meet the future cost of loans which could not be recovered due to the death of the student, their income not reaching the income threshold, or not being able to trace the student. Each year the Department estimates the future cost of bad debts based on a percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student Loan Company.

Student loans are effectively interest free as students are only charged interest equivalent to the rate of inflation. The Department meets the costs resulting from difference between the interest paid by students and the cost of capital on loans, which is known as the interest subsidy. The interest subsidy provision meets the cost of the interest over the life of the loan and is offset by the annual interest subsidy charge. The Department increases the provision based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions.

The student loan debt sale provision is the additional cost to the Department of government subsidies contractually due to the purchaser of the debts beyond the cost that the government would have incurred had the debts remained in the public sector.

During the year the Welsh Assembly Government (WAG) took over responsibility for income contingent student loans for Welsh domiciled borrowers. Consequently a proportion of the write off and interest subsidy provisions in respect of Welsh borrowers has been transferred to WAG with effect from 1 April 2006.

Following the announcement of the planned sale of some of the student loan stock (which should take place between 2008-09 and 2010-11), the Department is assessing the impact on the Department's student loan related provisions.



**Notes to the Departmental Resource Accounts** *(continued)**Property provision*

This provision provides for the future liabilities relating to former TEC and NDPB property leases which were re-assigned to the Secretary of State on the closure of the relevant programmes. The provision is based on the anticipation that the property leases for buildings used by NDPBs will expire in 2015, and the anticipated disposal for the last TEC property will be in 2018.

*Partnerships for Schools*

Partnerships for Schools (PFS) is an NDPB which operates under a joint venture agreement between the Department and Partnerships UK to deliver the Building Schools for the Future programme. The related provision covers amounts payable to Partnerships UK on achieving agreed targets.

*Centre for British Teachers Pensions*

The DfES had a contract with Centre for British Teachers (CfBT) for the delivery of the National Literacy, National Numeracy and Key Stage 3 Strategies. Under the terms of the contract CfBT were obliged to use the London Pensions Fund Authority to provide a pension service for staff employed by CfBT. The triennial revaluation of the local government pension contributions to the fund identified an actuarial shortfall in the pension fund in relation to the CfBT field force staff. Subsequently the Strategies contract underwent a re-tendering exercise and CfBT was not awarded the new contract. The staff transferred under TUPE to the new contractor on 1 April 2005, and the Department accepted liability to meet the pension deficit. The deficit is a short term liability and the intention is to pay it in full by the end of 2007-08.

**21. General Fund**

The General Fund represents the total assets less liabilities, to the extent that the total is not represented by other reserves and financing items.

	£000	2006-07 £000	£000	2005-06 £000
Balance at 1 April		12,298,006		9,698,076
Net Parliamentary funding				
Drawn down	59,124,210		30,643,915	
Deemed Supply	15,522			
		59,139,732		30,643,915
Net Transfer from Operating Activities				
Net operating cost for the year	(57,100,470)		(28,514,934)	
CFERs payable to the Consolidated Fund	(153,312)		(102,185)	
		(57,253,782)		(28,617,119)
Year End Adjustment				
Supply (creditor) / debtor		13,914		(15,522)
Non-cash charges:				
Cost of capital	277,290		237,749	
Auditor's remuneration	300		300	
Student loan interest subsidy inflation adjustment	502,089		349,828	
Transfer opening student loan and provision balances to WAG	(742,414)		-	
Elimination of SEN debtor	(2)		-	
Elimination of SEN creditor	353		-	
Tangible assets capitalised	14		-	
Intangible assets capitalised	7,584		-	
Transfer from the revaluation reserve (Note 22)	1,034		783	
Assets sold as CFER	-		(4)	
		46,248		588,656
Balance at 31 March		<b>14,244,118</b>		<b>12,298,006</b>

## Notes to the Departmental Resource Accounts *(continued)*

### 22. Revaluation reserve

The revaluation reserve represents the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	2006-07 £000	2005-06 £000
Balance at 1 April	16,037	5,472
Arising on revaluation during the year (net)	5,775	11,348
Transferred to the General Fund in respect of realised element of revaluation reserve (Note 21)	(1,034)	(783)
Balance at 31 March	<u>20,778</u>	<u>16,037</u>

### 23. Notes to the Consolidated Cash Flow Statement

#### 23(a) Reconciliation of operating cost to operating cash flows

	Note	2006-07 £000	2005-06 £000
Net operating cost		(57,100,470)	(28,514,934)
Adjustments for non-cash transactions	10	1,112,992	531,729
Adjustments for movements in working capital other than cash:			
(Increase)/decrease in stocks		-	-
(Increase)/decrease in debtors	17	(67,664)	103,392
Less movements in debtors relating to items not passing through the OCS		34,399	(54,184)
Increase/(decrease) in creditors falling due within one year	19	(106,608)	(50,995)
Less movements in creditors relating to items not passing through the OCS		(5,516)	(4,548)
Use of provisions		(559,644)	(408,573)
Net cash outflow from operating activities		<u>(56,692,511)</u>	<u>(28,398,113)</u>

#### 23(b) Analysis of capital expenditure and financial investment

	Note	2006-07 £000	2005-06 £000
Tangible fixed assets additions		(8,171)	(6,600)
Intangible fixed asset additions		(5,943)	(1,220)
Proceeds from disposal of fixed assets	7	15	11
Loans to other bodies		(2,964,253)	(2,621,447)
Repurchase of sold loans		(52)	(50)
Repayment of loans		671,408	498,936
Net cash outflow from investing activities		<u>(2,306,996)</u>	<u>(2,130,370)</u>

#### 23(c) Analysis of capital expenditure and financial investment by request for resources

	Capital expenditure £000	Loans, etc. £000	A in A £000	Non A in A £000	Net Total £000
Request for resources 1	14,114	2,964,305	(523,864)	(147,559)	2,306,996
Request for resources 2					
Request for resources 3					
Net movement in debtors/creditors	(232)	(10,133)	(7,338)	(3,014)	(20,717)
Total 2006-07	<u>13,882</u>	<u>2,954,172</u>	<u>(531,202)</u>	<u>(150,573)</u>	<u>2,286,279</u>
Total 2005-06	<u>7,968</u>	<u>2,613,454</u>	<u>(400,051)</u>	<u>(100,236)</u>	<u>2,121,135</u>

## Notes to the Departmental Resource Accounts *(continued)*

### 23(d) Analysis of financing

	Note	2006-07 £000	2005-06 £000
From Consolidated Fund (Supply) – current year	21	59,124,210	30,643,915
From Consolidated Fund (Supply) – prior year		–	57,579
Advances from the Contingencies Fund		177	–
Repayment to the Contingencies Fund		(177)	–
<b>Net financing</b>		<b>59,124,210</b>	<b>30,701,494</b>

### 23(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2006-07 £000	2005-06 £000
Net cash requirement	4	(59,153,647)	(30,628,392)
From the Consolidated Fund (Supply) – current year	23d	59,124,210	30,643,915
From the Consolidated Fund (Supply) – prior year	23d	–	57,579
Amounts due to the Consolidated Fund received and not paid		34,180	11,731
CFERs received in prior year and paid over		(11,731)	(19,141)
<b>Increase/(decrease) in cash</b>		<b>(6,988)</b>	<b>65,692</b>

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

Programme grants (apart from the Dedicated Schools Grant) and other current expenditure have been allocated to each objective by direct allocation in line with the allocation of PSA targets. The Dedicated Schools Grant expenditure supports a number of objectives and, as it is 46% of net programme expenditure, the Department has decided to disclose it separately rather than apportion the expenditure. Corporate costs, such as marketing, have been apportioned to each objective. The cost allocation model was reviewed this year and, as a result, expenditure on schools grants (totalling approximately £804 million in 2006-07,) which had been allocated as Objective 2 expenditure in the 2005-06 allocation model is now apportioned to Objectives 1 and 2. The 2005-06 comparative figures have not been restated.

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

	2006-07 £000	2005-06 £000
Objective 1 – Children and families	3,357,028	1,990,742
Objective 2 – Schools	6,861,805	8,004,815
Objective 3 – Young people	8,608,924	7,736,127
Objective 4 – Adult skills and further education	3,246,670	3,243,263
Objective 5 – Higher education	8,207,062	7,299,775
Dedicated Schools Grant	26,576,336	–
<b>Total</b>	<b>56,857,825</b>	<b>28,274,722</b>

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

With the exception of the Sure Start computer system (which is used solely for Objective 1), the National College for School Leadership property and loans to schools (Objective 2) and student loans (which support Objective 5), the Department's capital is almost exclusively employed for administration of the Department. The capital employed has therefore been allocated to five departmental objectives in proportion to either gross administration costs, or if more appropriate gross programme costs, except for the capital employed of the above mentioned items that have been directly allocated. The Dedicated School Grant is an in-year cash expense so it does not impact on the apportionment of assets and liabilities. As student loans account for 98% of the gross assets, the majority of the capital employed is allocated to Objective 5.

Notes to the Departmental Resource Accounts *(continued)*

	2006-07 £000	2005-06 £000
Objective 1 – Children and families	(6,955)	(16,471)
Objective 2 – Schools	(23,942)	(93,515)
Objective 3 – Young people	(40,890)	(91,204)
Objective 4 – Adult skills and further education	(20,773)	(39,073)
Objective 5 – Higher education	14,357,456	12,554,306
Total	<b>14,264,896</b>	<b>12,314,043</b>

**25. Capital commitments**

	2006-07 £000	2005-06 £000
Contracted and approved commitments at 31 March 2007 for which no provision has been made	–	100

**26. Commitments under leases**

Commitments under operating leases to pay rentals, service charges and rates during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires. These commitments include costs that will be charged to administrative costs (as disclosed in Note 3) and programme expenditure.

	2006-07 £000	2005-06 £000
<b>Obligations under operating leases comprise:</b>		
Land and buildings:		
Expiry within 1 year	738	274
Expiry after 1 year but not more than 5 years	5,863	595
Expiry thereafter	13,637	27,056
	<b>20,238</b>	<b>27,925</b>
Other:		
Expiry within 1 year	4	34
Expiry after 1 year but not more than 5 years	112	163
Expiry thereafter	137	–
	<b>253</b>	<b>197</b>

**27. 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 Department for Education and Skills 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 limited companies to which FRS 13 applies. The Department has very limited powers to borrow or invest surplus funds. 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.

*Liquidity risk*

The Department's net revenue resource requirements (as well its capital expenditure) are financed by resources voted annually by Parliament. DfES is therefore not exposed to any significant liquidity risks.

**Notes to the Departmental Resource Accounts** *(continued)**Interest-rate risk*

The Department's assets and liabilities carry either nil or fixed rates of interest and is not therefore exposed to significant interest-rate risk.

*Foreign currency risk*

The Department's exposure to foreign currency risk is low. The foreign currency income received by the Department is negligible and foreign currency expenditure is less than 0.01% of total gross expenditure and therefore is not significant.

*Fair values*

Set out below is a comparison of book values and fair values of the Department's financial assets and liabilities as at 31 March 2007

	<u>Book value</u> £000	<u>Fair value</u> £000	<u>Basis of fair</u> <u>valuation</u>
<b>Primary financial instruments:</b>			
<i>Financial assets</i>			
Cash at bank	20,266	20,266	
Student loans	17,842,736	17,842,736	note a
Loans to voluntary aided schools	1,353	1,353	note b
<i>Financial liabilities</i>			
Provisions	<u>(3,555,725)</u>	<u>(3,555,725)</u>	<u>note c</u>

## Notes:

- a The student loans interest rate is revised annually, so the fair value is not significantly different from the book value.
- b Schools are charged fixed rate interest based on the government lending rate on the day the loan was issued. There is no significant difference between the interest rate charged to the schools and the current rate of interest, so the fair value is not significantly different to the book value.
- c The fair value of the provisions is not significantly different from the book value since, in the calculation of the book value, the expected cash flows have been discounted by the Treasury discount rate of 2.2% in real terms.

## Notes to the Departmental Resource Accounts *(continued)*

### 28. Contingent liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability

#### Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities, or by giving letters of comfort. None of these is a contingent liability under the meaning of FRS12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2006 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2007 £000	Amount reported to Parliament Departmental Minute £000
<b>Indemnities</b>						
The Department will meet the accrued Civil Service redundancy entitlement to date of secondees who resigned from the Department to take up Training and Enterprise (TEC) employment on or after 1 January 1993 in TECs in England and Wales if:	59,000					
a) Their TEC makes them redundant due to direct government action during their first five years of employment;				56,500	2,500	
b) A court or tribunal ever ruled that TEC and civil service employment were continuous for redundancy calculation purposes.						

Notes to the Departmental Resource Accounts *(continued)*

	1 April 2006 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2007 £000	Amount reported to Parliament Departmental Minute £000
<p>The Department has and will continue to give indemnities to Training and Enterprises Councils (TECs), Chamber of Commerce Training and Enterprise Councils (CCTEs), their representative TEC bodies and those concerned with the wind up, transfer or continuation of TEC delivered activity, where this will facilitate the conclusion of the working and contractual relationship between TECs, CCTEs and Government, thereby ensuring the continuation of essential discretionary activity and the return of residual reserves owing to the Secretary of State at the earliest opportunity. The indemnities will include:</p>						
<p>a) Liabilities that arise from audit work carried in respect of the delivery of activities funded through European Union initiatives or through Single Regeneration Budget and other schemes sponsored by Government Departments other than DfES and DTI;</p>	81,415			20,668	60,747	
<p>b) Liabilities that arise from the transfer of TEC/CCTE functions to successors, including from staff who have transferred or been made redundant, and who as a result of the transfer seek redress through the Employment Tribunal;</p>	1,000				1,000	

Notes to the Departmental Resource Accounts *(continued)*

	1 April 2006 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2007 £000	Amount reported to Parliament Departmental Minute £000
c) Liabilities arising from properties leased by TECs/CCTEs that they have been unable to dispose of by the time they wind up. The Department may take over these leases and dispose of them on behalf of the TECs/CCTEs.	7,150			2,215	4,935	
In order to ensure the Croydon Local Learning and Skills Council (LLSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CTE) property exists in the Croydon LLSC area an indemnity to give a landlord a guarantee that, in the event of the Learning and Skills Council (LSC) ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	4,452			415	4,037	



Notes to the Departmental Resource Accounts *(continued)*

	1 April 2006 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2007 £000	Amount reported to Parliament Departmental Minute £000
In order to ensure the Learning and Skills Council (LSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training Enterprise (CCTE) property exists in Brighton, Manchester or Coventry area an indemnity to give landlords a guarantee that, in the event of the LSC ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	33,471			2,783	30,688	
In order to ensure that Adult Learning Inspectorate (ALI) commenced operations in April an indemnity was given to the landlord which guaranteed that, in the event of ALI ceasing to exist the Secretary of State will take over the lease of ALI's office in Coventry. This is because, to the landlord, the ALI was an unknown body with no financial history. The Education and Inspections Act 2006 abolishes the Adult Learning Inspectorate (ALI), and transfers its inspection functions to the Office for Standards in Education, Children's Services and Skills. Consequently from 1 April 2007 this property and its associated liability transfer to the new Ofsted.	6,490			490	6,000	

Notes to the Departmental Resource Accounts *(continued)*

	1 April 2006 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2007 £000	Amount reported to Parliament Departmental Minute £000
Arrangements to allow the appointment of a receiver to manage the affairs of Merseyside Training and Enterprise Council (MTEC).	2,000				2,000	
Arrangement to allow the appointment of a receiver at any TEC we believe necessary.	6,000				6,000	
In order to ensure that the Kempston Local learning and Skills Council (LLSC) commenced its operations on time, and because there was no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CCTE) property in the Kempston LLSC area, and because the LSC was an unknown body to the landlord with no financial history the landlord required the Secretary of State to act as guarantor. In the event of the LSC ceasing to exist, the Secretary of State will be required to take over responsibilities under the lease.	530			144	386	

Notes to the Departmental Resource Accounts *(continued)*

	1 April 2006 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2007 £000	Amount reported to Parliament Departmental Minute £000
In order to ensure the continued occupancy of a surplus government office, the lease of the property in Histon, Cambridge was assigned in 2003 to Opportunity Links Ltd. They are a company limited by guarantee, working closely with the DfES to support the delivery of information to families. Under the terms of the original lease the Secretary of State is guarantor of the tenants' obligations and in the event of Opportunity Links ceasing to exist, the Secretary of State will be required to take over the lease obligations.	1,285			117	1,168	

**29. Losses and special payments****29(a) Losses statement**

The total of all losses that have been brought to account in this year are as follows:

	No. of cases	2006-07 £000	2005-06 £000
Total	728	15,007	11,870
Cash losses	405	2,112	9,925
Losses of accountable stores	50	1,329	1,891
Fruitless payments and constructive losses	267	11,544	38
Claims waived or abandoned	6	22	16

**Details of cases over £250,000***Cash losses*

Individual Learning Accounts (ILAs). Work has continued with the police to either prosecute or recover grants claimed by training providers for improper activities. Included in the cash losses is £1,363,310 (11 cases) where recovery has not been possible because the provider organisation has either been dissolved or gone into liquidation.

Pre-funded Early Departure Liabilities: The Department pre-funded its estimated future early departure liabilities of people who left the Department in 1996 and 1999 by making a payment to the Cabinet Office. The actual charges relating to that group of leavers in 2006-07 were lower than expected and the £462,238 excess funding could not be refunded by the Cabinet Office, resulting in a cash loss to DfES.

**Notes to the Departmental Resource Accounts** *(continued)**Losses of accountable stores*

Publications: Excess and out of date National Strategies publications valued at £1,095,315 have been destroyed and written off during the year.

*Fruitless payments and constructive losses*

Connexions Card: The decision taken by Ministers to terminate the Connexions Card service resulted in a voluntary termination payment totalling £9,380,000 to Capita Business Services Ltd.

Schools Capital: Rutland Local Authority received £473,000 to fund design and other preparatory work in relation to their Targeted Capital projects. Following the local decision not to proceed with the projects the grant would normally be refundable to the Department, however, the Secretary of State decided to make an exception to avoid having a negative impact on education services in Rutland.

Youth Opportunity Card: The pilot project to introduce a Youth Opportunity Card was terminated this year following concerns over the value for money. Although some of the work associated with developing the Card can be used in future projects, the Department has written off consultancy and other development costs totalling £1,451,689 which were specific to this product.

**29(b) Special payments**

	<u>No. of cases</u>	<u>2006-07 £000</u>	<u>2005-06 £000</u>
Total	48	299	310

**29(c) Gifts**

	<u>No. of cases</u>	<u>2006-07 £000</u>	<u>2005-06 £000</u>
Total	47	3,468	–

**Details of cases over £250,000**

Included in the above is a group of gifts of computer equipment to children with special needs valued at £3,457,575.

**29(d) Other notes****Other notes****Loans remitted (written off) in year**

Loans totalling £5,801,000 issued by the Student Loans Company were remitted during the year mainly due to 688 deaths (£2,742,000), 1,066 borrowers reaching an age when their loans are cancelled (£2,626,000) and 138 disabled borrowers (£423,000).

## Notes to the Departmental Resource Accounts *(continued)*

### Acquisition of shares

The Department held the following shares during the financial year:

	£
Shares held at 1 April 2006	6
Acquired in year	–
Total shares held at 31 March 2007	6

The closing balance of shares held by the Department comprises 5 ordinary shares of £1 in the Student Loan Company Limited and 1 ordinary share of £1 in the Partnerships for Schools. Further information on the Student Loan Company and Partnerships for Schools is available in their separately published accounts.

### 30. Related party transactions

During the year DfES made grant payments to the following executive Non-Departmental Public Bodies and Public Corporations for which it has lead responsibility:

Adult Learning Inspectorate (ALI) – *transferred to OFSTED from 1 April 2007*  
 British Educational Communications and Technology Agency (BECTA)  
 Children and Family Court Advisory and Support Service (CAFCASS)  
 Construction Skills (*formerly Construction Industry Training Board*)  
 Engineering Construction Industry Training Board (ECITB)  
 General Teaching Council (GTC)  
 Higher Education Funding Council for England (HEFCE)  
 Investors in People UK Ltd (IiP)  
 Learning and Skills Council (LSC)  
 Learning and Skills Development Agency (LSDA)  
 National College of School Leadership (NCSL)  
 Office for Fair Access (OFFA)  
 Office of the Children's Commissioner (OCC)  
 Partnerships for Schools (PFS)  
 Qualifications and Curriculum Authority (QCA)  
 Quality Improvement Agency (QIA) – *operational from 1 April 2006*  
 School Food Trust (SFT) – *operational from 1 April 2006*  
 Sector Skills Development Agency (SSDA)  
 Student Loans Company Ltd (SLC)  
 Training and Development Agency for Schools (TDA)

In addition, the DfES has had various material transactions with Other Government Departments. Most of these transactions are with the Department for Work and Pensions, Department for Trade and Industry, the Home Office, Department of Health and Department for Communities and Local Government.

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

## Notes to the Departmental Resource Accounts *(continued)*

### 31. Entities within the Departmental boundary

The entities within the boundary during 2006-07 are the main Department, including the Sure Start Unit and the Children's Fund. The expenditure for these units is included in these accounts. The administration expenditure is included in request for resources 1 and the programme related costs are disclosed separately under requests for resources 2 and 3. They do not publish separate accounts.

### 32. Dispersal of TEC reserves

During the year the Department has continued to work with our partners to dispose of the TEC reserves and the outstanding balance has reduced from £1.3 million to £0.8 million. The cumulative balances, in-year dispersals from TEC reserves and the amount still to be repaid to DfES are as follows:

	Liquid attributable reserves £000	Attributable fixed assets £000	Non- attributable liquid reserves £000	Non- attributable fixed assets £000	Total £000
ILA Commitments repaid to the Department	123,874	–	–	–	123,874
Legacy payments to national and local LSC offices	77,627	5,389	1,502	–	84,518
TEC contribution to national transition costs	41,234	–	–	–	41,234
Assets transferred to continuing entities	3,033	3,589	8,633	10,679	25,934
Assets transferred to Business Links	5,831	997	7,456	1,472	15,756
Assets transferred to Chamber of Commerce	863	534	3,834	578	5,809
Other	12,215	1,335	2,025	120	15,695
<b>Reserves distributed – cumulative total</b>	<b>264,677</b>	<b>11,844</b>	<b>23,450</b>	<b>12,849</b>	<b>312,820</b>
Outstanding reserves					
Attributable funds held by liquidators	538	–	–	–	538
Attributable funds held by continuing TECs	250	–	–	–	250
<b>Reserves to be repaid as at 31 March 2007</b>	<b>788</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>788</b>
<b>Total TEC reserves</b>	<b>265,465</b>	<b>11,844</b>	<b>23,450</b>	<b>12,849</b>	<b>313,608</b>

Note – Funds remaining with continuing entities refers to the attributable reserves still held by former TECs but which are due to be returned to the DfES

### 33. Post Balance Sheet Events

On 28 June 2007 the Prime Minister announced a series of machinery of Government changes including the transfer of the DfES function related to children and young people to the newly created Department for Children, Schools and Families. Responsibility for higher education and skills has transferred to the new Department for Innovation, Universities and Skills. These changes are effective from 1 April 2007 so consequently do not require adjustment to these financial statements.

The financial statements were authorised for issue on 16 July 2007 by David Bell (Accounting Officer).

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