

Accounts of sums received by Ministers and others from the National Loans Fund, and from various bodies in respect of interest and repayment of loans, etc., and of the disposal of those sums respectively, for the year ended 31 March 2007, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 786 of 2007-2008)

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## Accounts relating to issues from the National Loans Fund 2006-2007

Accounts of sums received by Ministers and others from the National Loans Fund, and from various bodies in respect of interest and repayment of loans, etc., and of the disposal of those sums respectively, for the year ended 31 March 2007, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 786 of 2007-2008)

Presented pursuant to

Aircraft and Shipbuilding 1977

Atomic Energy Authority Act 1986

Atomic Energy Authority Act 1971

Civil Aviation Act 1982

Commonwealth Development Corporation Act 1999

Government of Wales Act 1998

Harbours Act 1964

Housing Associations Act 1985

National Loans Act 1968

Northern Ireland (Loans) Act 1975

Post Office Act 1969

Postal Services Act 2000

Scotland Act 1998

Transport Act 1968

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# Accounts relating to issues from the National Loans Fund 2006-2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 25 NOVEMBER 2008

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# Contents

This volume contains statutory accounts prepared to show the transactions of Ministers and others in 2006-2007 in connection with loans to various bodies out of issues from the National Loans Fund. Details of issues from the National Loans Fund in 2006-2007 are given in the relevant part of the National Loans Fund Account (see page 16 of HC 1022 of 2007-2008). Certain issues and payments in respect of accounts not included herein are also notes to complete the reconciliation with that part on the National Loans Fund Accounts.

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## Notes for inclusion in the Summary to the Volume 'Accounts relating to issues from the National Loans Fund 2006-2007'

### Aircraft and Shipbuilding Industries Act 1977

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare an account of any transactions with British Shipbuilders in respect of loans made from the National Loans Fund under Section 12(1) of the Act. As all outstanding loans made from the National Loans Fund were repaid in the financial year ended 31 March 1993 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2007.

Section 16 of the Act provides that the Secretary of State may, with the approval of HM Treasury, pay to the Corporation out of money provided by Parliament Public Dividend Capital within certain limits as he thinks fit. A payment of £5m was made during the 2006-2007 financial year, so the total paid to 31 March 2007 is £1,603.4m.

In consideration of the sums received under Section 16(1), Section 16(2) of the Act requires the Corporation to make payments to the Secretary of State (public dividends) in respect of each accounting year, unless the Corporation satisfies him that it is inappropriate to make a payment in any year. If the public dividend proposed by the Corporation in any year is not acceptable to the Secretary of State and HM Treasury, the Secretary of State, with the approval of HM Treasury, and after consultation with the Corporation, may determine the public dividend to be paid. The Government announced on 29 October 1979 that the Corporation would not pay dividends on its capital until it was profitable. No dividend therefore was paid in respect of the financial years up to 31 March 1988. The Government subsequently announced in May 1988 that dividends would no longer be expected to be proposed by or required of the Corporation in respect of further payments of public dividend capital. No dividends were therefore paid in respect of the financial year ended 31 March 2007. The net liabilities of the British Shipbuilders' Corporation, as at 31 March 2006 were £84 million, as disclosed in the Departmental Resource Account 2006-2007.

Under SI 1988 – 1401, there is a financial limit of £1,700 million in respect of aggregate borrowings and Public Dividend Capital.

### Atomic Energy Authority Act 1986

Section 4(6) of the above Act requires the Secretary of State for Trade and Industry to prepare accounts for any transactions with the United Kingdom Atomic Energy Authority in respect of loans made from the National Loans Fund under section 4(4) of the above Act. As all outstanding debt was extinguished by the UKAEA (Extinguishment of Liabilities) Order 1996 No. 2511, and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2007.

Under Section 3(1) of the Act, the aggregate amount outstanding by way of principal in respect of borrowing and guarantees in connection with the finances of the United Kingdom Atomic Energy Authority is limited to £150 million, or such greater sum, not exceeding £200 million, as the Secretary of State may specify by order.

## Atomic Energy Authority Act 1971

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare accounts for any transactions with British Nuclear Fuels plc (BNFL) in respect of loans made from the National Loans Fund under Sections 12(2) and (3) of the 1971 Act. As the company has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2007.

Under Section 3 of the Act, there is a financial limit of £200 million in respect of aggregate financial arrangements.

### **Limits on borrowing**

The commitment of public finance to BNFL under Section 2(1) and (2) of the Nuclear Industry (Finance) Act 1977 as amended by the Nuclear Industry (Finance) Act 1981 and by the Atomic Energy Act 1989 is limited. At 31 March 2007 the limit specified was £2,000m.

BNFL have previously repaid all loans and during 2006-2007 it took out no new loans.

The shares in BNFL, now British Nuclear Group Sellafield Limited, were transferred to British Nuclear Group Limited on 1 April 2005 by the Nuclear Transfer Scheme, executed on behalf of the Secretary of State for Trade and Industry under Section 39 of the Energy Act 2004. There was no consideration for the transfer.

## Electricity Act 1989

Section 78(5)(a) of the Electricity Act 1989 requires the Secretary of State for Trade and Industry to prepare an account of any transactions with the electricity supply industry successor companies, then wholly owned by the Crown, in respect of loans made to them from the National Loans Fund under Section 78(1) of the Act.

Under Section 81 of the Act there is a financial limit of £2,000 million in respect of the aggregate loans and sums issued in fulfilment of guarantees.

Magnox Electric Ltd is the only successor company in England and Wales which remains wholly owned by the Crown and thereby eligible to receive loans from the National Loans Fund. As the successor companies in England and Wales had repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2007.

## Commonwealth Development Corporation Act

Section 13(1) of the Commonwealth Development Corporation Act 1999 requires the Secretary of State to prepare for each financial year an account of sums (if there are any) issued or received by him in respect of loans from the National Loans Fund (NLF) to the Commonwealth Development Corporation (now renamed the CDC Group) under Section 9(2) of the Act. The CDC Group repaid all the then outstanding loans from the NLF in the financial year ended 31 March 1999. Provisions for CDC borrowing from the NLF remain in force. However there have been no sums issued or received under these provisions up to 31 March 2007; no account has therefore been prepared for the year to 31 March 2007.

## Postal Services Act 2000

Section 76 of the Postal Services Act 2000 requires the Secretary of State for Trade and Industry to prepare an account of any transaction with the Post Office company and its subsidiaries in respect of loans made from the National Loans Fund under Section 68 of the Act.

As the company has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 2004 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2007.

Under Section 71 of the Act, the Crown's financial arrangements with the Post Office company and any of its subsidiaries are not to exceed £5,000 million or any such greater sum as the Secretary of State may by order specify.

During 2006-2007, there were no amounts loaned under the Postal Services Act 2000. A £500 million loan made available to Royal Mail by the Secretary of State under the Post Office Act 1969 remains repayable and is due to mature between 2021 and 2025.

At the end of 2002 Government agreed a financing package with the Royal Mail mails business to provide it with access to funds to assist it in delivering its 3 year restructuring programme for the mails business. The loan was provided on commercial terms and part of the package comprised a £544m NLF loan, to be advance to the company in accordance with section 68 of the Postal Services Act 2000. The £544m loan comprised of two separate one-off loan facilities of £100m and a revolving loan facility of £344m. The availability of these facilities expired on the 23 March 2007 and the company did not utilise these facilities during the lifetime of the loan.

On the 26 March 2007 the Secretary of State confirmed via written statement to Parliament finalisation of a new financing framework for Royal Mail. Part of this framework includes new debt facilities of £900m to be provided by the NLF on commercial terms. This comprises a revolving loan facility of up to £300m and a separate loan facility of £600m, which would be advance to the company under section 68 of the Postal Services Act 2000. This new package replaces and increases the package agreed in 2002 and will allow the company to embark on an investment programme so that it can further transform its effectiveness and secure the efficiency improvements required under the latest regulatory settlement. The new NLF debt facilities became effective from the 23 March 2007 and the company has not yet utilised any of these facilities.

*Sir Brian Bender KCB* 12 July 2007  
Principal Accounting Officer and Permanent Secretary

## Transport Act 1968

Section 44(1) of the above Act requires the Secretary of State for the Department for Transport to prepare accounts for any transactions with the British Railways Board in respect of loans made from the National Loans Fund under section 20(1) of the Transport Act 1962. As the British Railways Board has repaid all outstanding debt from the National Loans Fund in the financial year ended 31 March 2002, and as there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2007.

Rober Devereux 25 February 2008  
Accounting Officer  
Department for transport

## Accounts of Loans to Public Corporations





# Transport Act 1968

Advances to the British Waterways Board (Secretary of State for Environment, Food and Rural Affairs)

Account Presented Pursuant To Act 1968, c.73, s.44 (3)

## Foreword

### Scope of the Account

- 1 This Account is prepared in compliance with section 44(1) of the Transport Act 1968 and is required to show
  - i the sums issued to the Secretary of State for Environment, Food and Rural Affairs out of the National Loans Fund under section 20(3)\* to enable the Secretary of State to make loans under section 20(1) to the British Waterways Board;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on and repayment of
    - a loans under section 20(2);
    - b commencing capital debt under section 39(6);
  - iv the payment into the National Loans Fund of the sums received under (iii);
  - v the sums received by the Secretary of State in respect of surpluses of the Board under section 43(5) of the Transport Act 1968; and
  - vi the payment into the Consolidated Fund of the sums received under (v).

Grants made to the Board under the provisions of the Transport Act 1968 were accounted for in the Defra Resource Accounts 2006-2007.

### Secretary of State's power to make loans

- 2 Section 20 provides that the Secretary of State may, with the approval of HM Treasury, lend to the Board any sums which it has power to borrow under sections 19(1) or (2). Sums needed for such loans are issued by HM Treasury to the Secretary of State who is required to give directions for repayment on terms approved by HM Treasury and to pay into the National Loans Fund sums received in respect of interest and repayment of principal.

### Limits on borrowing

- 3 Section 19(3) of the Act as amended by section 1(1) of the Water Act 1981 and The British Waterways Board (Limit for Borrowing) Order 2001 (SI No 1054) imposes a limit of £35 million on the Board's aggregate outstanding borrowing and its commencing capital debt. The borrowings comprise government advances and temporary borrowings from approved sources. A limit on temporary borrowings has been set by the Secretary of State, in accordance with section 19(1) of the Act, at £3 million and HM Treasury has guaranteed this borrowing under section 21(1). At 31 March 2007 the aggregate outstanding borrowings counting against these limits were

	£
Loans made by the Secretary of State	9,912,000
Temporary Loans	–
Commencing Capital Debt	–
	9,912,000

\* All references to sections relate to the Transport Act 1962 except where otherwise stated.

**Loans made by Secretary of State, interest payable and repayment of principal**

- 4 In accordance with section 5 of the National Loans Act 1968, HM Treasury prescribes the rate of interest applicable to each loan. The loans to the Board are repayable after 7 or 25 years, with interest payable half-yearly. No new loans were advanced to the Board during 2006-2007. £640,000 of principal was repaid by the Board to the National Loans Fund in 2006-2007.

**Statement of Accounting Officer's responsibilities**

Under section 44(1) of the Transport Act 1968 the Secretary of State for Environment, Food and Rural Affairs is required to prepare an account for each financial year in the form and on the basis determined by HM Treasury. The Accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.

The Secretary of State has designated the Principal Accounting Officer for the Department for Environment, Food and Rural Affairs as Accounting Officer for the Fund. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting (HMSO).

*Mrs Helen Ghosh*

18 June 2007

Accounting Officer for the Department for Environment, Food and Rural Affairs

## Transport Act 1968

Account prepared under Section 44(1) of the Transport Act 1968, of the receipts and payments of the Secretary of State for Environment, Food and Rural Affairs under Sections 43 and 44(4) of that Act (and Sections 20 and 39 of the Transport Act 1962) for the year ended 31 March 2007.

	<b>2006-2007</b>	2005-2006
	£	£
<b>Receipts</b>		
Issues from the National Loans Fund (s.20(3))	<b>0</b>	0
<i>Payments by the British Waterways Board [s.20(2)]</i>		
Repayment of loans	<b>640,000</b>	3,584,000
Interest on loans	<b>1,055,643</b>	1,466,284
	<b><u>1,695,643</u></b>	<u>5,050,284</u>
<b>Payments</b>		
Loans to British Waterways Board (s.20(1))	<b>0</b>	0
<i>Payments to the National Loans Fund [s.20(5)]</i>		
Repayment of loans	<b>640,000</b>	3,584,000
Interest on loans*	<b>1,055,643</b>	1,466,284
	<b><u>1,695,643</u></b>	<u>5,050,284</u>

### Notes

- 1 At 31 March 2007 the debt outstanding to the Secretary of State was £9,912,000.
- 2 The 2005-2006 interest on loans figures include a penalty of £8,762. This was incurred as result of the loan repayment, due on 2 April 2005, being delayed by two working days.

*Mrs Helen Ghosh* 18 June 2007  
Accounting Officer for the Department for Environment, Food and Rural Affairs

This account is authorised for issue by the Accounting Officer on 2 July 2007.

# Statement on Internal Control

## Scope of responsibility

This statement is given in respect of the British Waterways Board National Loans Fund (NLF) Accounts. The Department for Environment, Food and Rural Affairs (Defra), since its inception on 8 June 2001, has managed waterways in England. Accordingly, I, as Accounting Officer for Defra, am responsible for preparing the British Waterways Board National Loans Fund Accounts for 2006-2007.

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

## Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has continued to develop during the year, up to the date of approval of the annual report and accounts and accords with HM Treasury guidance.

## Capacity to handle risk

The Management Board reviews strategic-level risk through the corporate Balanced Scorecard, and by monitoring the status of our mission-critical programmes and top threats.

As well as generalist risk management training for managers across the Department, staff are encouraged to identify and address risks at a local level, free from blame.

## Risk and control framework

The Department identifies and addresses risks affecting all levels of the organisation, from high level strategic risks down to lower level operational matters. The risks associated with the British Waterways Board National Loans Fund (NLF) Accounts fall at operational level.

The Department has published a high level statement regarding its risk appetite but emphasis is being placed on taking a more explicit approach.

## Review of effectiveness

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

The Department has applied the following processes in maintaining, reviewing and developing the effectiveness of the system of internal control

- The Management Board meets monthly and provides strategic leadership for the Department and is responsible for ensuring effective risk management and control;
- The Audit and Risk Committee, a sub committee of the Management Board, meets throughout the year and considers the adequacy of audit arrangements, both internal and external. It reviews and challenges risk assurances from senior managers; and
- Internal Audit reports to the Audit and Risk Committee and provides independent assurance of the adequacy and effectiveness of the Department's risk management, control and corporate governance procedures.

### Financial control

Financial control for the British Waterways Board National Loans Fund (NLF) Accounts is supported by management information, financial regulations and procedures. Processes to achieve this control include

- Compilation of a timetable which incorporates activities designed to minimise risk; and
- Reconciliation of the account on a monthly basis. This is subject to regular management verification.

*Mrs Helen Ghosh*

18 June 2007

Accounting Officer for the Department for Environment, Food and Rural Affairs

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the British Waterways Board National Loans Fund for the year ended 31 March 2007 under the Transport Act 1968. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

## Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Transport Act 1968 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 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 properly present the receipts and payments and are properly prepared in accordance with the Transport Act 1968 and HM Treasury directions made thereunder. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition I report to you if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on Internal Control reflects 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 form an opinion on the effectiveness of the Department for Environment, Food and Rural Affairs' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my 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 opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgments made by the Accounting Officer in the preparation of the financial statements.

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

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Environment, Food and Rural Affairs in respect of advances to the British Waterways Board for the year ended 31 March 2007 and the balance held at that date; and
- the financial statements have been properly prepared in accordance with the Transport Act 1968 and the directions made thereunder by HM Treasury.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

2 July 2007

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



# Civil Aviation Act 1982

Advances To The Civil Aviation Authority (Secretary of State For Transport)

Account Presented pursuant to the Civil Aviation Act 1982, c.16 s.15(4)

## Foreword

### Scope of the Account

- 1 This Account is prepared in compliance with section 15(4) of the Civil Aviation Act 1982 and is required to show
  - i the sums issued to the Secretary of State out of the National Loans Fund under section 12(4)<sup>1</sup> to enable him to make loans under section 12(2) to the Civil Aviation Authority;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on and repayment of loans under section 12(3);
  - iv the payment into the National Loans Fund of the sums received under (iii);
  - v the sums received by the Secretary of State directed to be paid to him by the Authority in respect of
    - a any excess revenues under section 13(1);
    - b any sums standing to the credit of reserves under section 13(2);
  - vi the payment into the Consolidated Fund of the sums received under (v).

### Secretary of State's power to make loans

- 2 Section 12 of the Act provides that the Secretary of State may, with the approval of the Treasury, lend to the Civil Aviation Authority any sum which it has the power to borrow under section 10 (as amended) by the Civil Aviation Authority (Borrowing Powers) Act 1990. Sums needed for such loans are issued by the Treasury to the Secretary of State who is required to give directions for repayment on terms approved by the Treasury and to pay into the National Loans Fund sums received in respect of interest and repayment of principal.

### Limits on borrowing

- 3 The Civil Aviation Authority (Borrowing Powers) Order 1995, made under the Civil Aviation Authority (Borrowing Powers) Act 1990, sets the limit on the Authority's aggregate outstanding borrowings and its initial debt at £550 million. These borrowings may comprise Government advances, temporary borrowings from banks and other sources, borrowings in foreign currency, borrowings from the Commission of the European Communities and from the European Investment Bank. At 31 March 2007, the aggregate outstanding borrowings counting against the limit of £550 million was

	£
Loans made by the Secretary of State	10,055,844
Foreign loans	0
	<hr/>
	10,055,844
	<hr/>

<sup>1</sup> All references to sections relate to the Civil Aviation Act 1982 except where otherwise stated.

**Loans made by the Secretary of State, interest payable and repayment of principal**

- 4 Up to the end of 1992, advances made to the Authority under section 12(2) were normally repayable at maturity. However from January 1993, advances made to the Authority under section 12(2) have been equal repayment loans. Advances at fixed interest rates are based on the rates prescribed by the Treasury for the period in which the dates of the loan fall. There are no outstanding variable rate loans. Interest on advances is paid half-yearly on 2 January and 2 July. The Authority pays interest to the Secretary of State without deductions for Income Tax. The Authority is also permitted to take up to 10 per cent of its non-temporary borrowing from the NLF in any one year on variable rate terms. Such loans are available for maturities of from 1 to 10 years, with roll-over periods of 1, 3 or 6 months.

**Initial debt**

- 5 The Authority's initial debt was repaid in full during the accounting year 1981-1982.

**Excess revenues and sums standing to the credit of reserves**

- 6 Under sections 13(1) and (2) the Secretary of State may, with the approval of the Treasury and after consultation with the Authority, direct the Authority to pay him
- i the whole or any part of the excess of the revenues of the Authority in any accounting year over the sums properly chargeable by the Authority to revenue account;
  - ii the whole or part of the sums for the time being standing to the credit of any reserves of the Authority.

No such directions were issued in respect of the accounting year 2006-2007.

**Statement of Secretary of State's and Accounting Officer's responsibilities**

- 7 Under Section 15(4) of the Civil Aviation Act 1982 the Secretary of State is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year.
- 8 The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in '*Government Accounting*' (TSO).

Robert Devereux  
Accounting Officer  
Department for Transport

25 February 2008

## Civil Aviation Account 1982

Prepared under Section 15 of the Civil Aviation Act 1982, of the Receipts and Payments of the Secretary of State for The Department for Transport under Sections 9, 10, 12 and 13 of that Act for the year ended 31 March 2007.

### Receipts

	£	Previous year £
Balance as at 1 April 2006	0	0
From the National Loans Fund [s.12(4)]	0	4,000,000
<i>From the Civil Aviation Authority Loans [s.12(4)]</i>		
Repayment of Principal	<b>917,785</b>	654,609
Interest	<b>694,746</b>	629,344
Premium for early repayments of loans	0	0
Penalty for late repayments of loan	0	0
	<b><u>1,612,531</u></b>	<b><u>5,283,953</u></b>

### Payments

	£	Previous year £
<i>Loans to the Civil Aviation Authority [s.12(2)]</i>	0	4,000,000
Payments to the National Loans Fund [s.12(4)]		
Repayment of Principal	<b>917,785</b>	654,609
Interest	<b>694,746</b>	629,344
Premium for early repayments of loans	0	0
Penalty for late repayment of loan	0	0
Balance at 31 March 2007	0	0
	<b><u>1,612,531</u></b>	<b><u>5,283,953</u></b>

### Note

At 31 March 2007 the debt outstanding to the Secretary of State was: £10,055,844.89

Robert Devereux  
Accounting Officer  
Department for Transport

25 February 2008

# Statement on Internal Control

## Scope of responsibility

Management and preparation of this account and the underlying accounting transactions are subject to the control environment of the Department for Transport to which the rest of this statement refers. There are no risks identified specifically for this account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility for signing this account.

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

## 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 departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

Leadership on risk management is provided by

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. In 2006-2007, the Department's Board included the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security (Corporate Capability and Resources Group with effect from 1 April 2007) is the Board's 'Risk Management Champion'; and
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet identified risks and corporate governance standards.

The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes two non-executive members from the DfT family. Each Agency has its own Audit Committee, which fulfils a similar function. The business of the Civil Aviation Act has not been subject to consideration of any Audit Committee.

Officials consult Ministers regularly on risk. Submissions to Ministers incorporate assessments of key risks, including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

During 2006-2007, the Department's Risk Improvement Manager identified and implemented actions to improve the identification and mitigation of Board level risks through an improved business planning and risk management reporting process. The Department's Risk Improvement Manager is also responsible for ensuring that appropriate guidance, support and training on risk management is available to staff within the central Department. A programme of risk management workshops and other events was delivered which helped embed risk management concepts into every day departmental business and increase staff capacity to manage risks effectively. A number of improvements and additions were made to the Departmental risk guidance, including additional guidance on project risk management and on partnership risk management.

## The risk and control framework

The Treasury published its *Code of Good Practice on Corporate Governance in Central Government Departments* in July 2005; the Department's practices are broadly consistent with the principles set out in this Code.

Director Generals and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department also has in place risk registers, and a corporate risk log, which is reviewed by the Board on a bi-monthly basis.

The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of Agency Chief Executives, Directors General and Directors; and the end of year reporting arrangements. The Framework sets out the responsibilities of Directors General and Directors for risk management. The Framework is supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources.

The Department has put in place a common framework of management assurances to support a more transparent and consistent approach to the review of systems of internal control.

The Department has a number of well-established programmes for involving the public in managing the risks associated with transport. The Department has also identified its ability to manage major transport disruptions as a key corporate risk, and has in place an active programme, working with partners, to ensure that adequate contingency and emergency plans are maintained, developed and reviewed.

## Review of effectiveness

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

The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports regularly to the Board the Committee's views on the effectiveness of internal control.

The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government's *Internal Audit Standard*. It provides an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports are provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment is also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

Director Generals and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which the Finance Director has reviewed and summarised in his report to me on stewardship.

## Group audit opinion

The Group Head of Internal Audit has provided the following opinion for 2006-2007

"My overall opinion on risk management, internal control and governance within the DfT Group is as follows

### **Risk management**

I can provide substantial assurance that risk management processes are working well in the DfT Group. The Department and the Agencies have continued during the year to improve their risk management arrangements and embed them as part of their decision making and management processes.

### **Internal control**

I can provide substantial assurance that internal control processes are working well in the DfT Group. The Department and the Agencies have continued during the year to improve their risk management arrangements and embed them as part of their decision making and management processes.

### **Corporate governance**

I can provide substantial assurance that the Department and the Agencies have appropriate structures in place to govern their work. They are largely consistent with Treasury's *Code of Good Practice on Corporate Governance*."

There have been no audit related observations on the business under the Civil Aviation Act.

*Robert Devereux*  
Accounting Officer  
Department for Transport

25 February 2008

# The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I have audited the financial statements on page 16 under the Civil Aviation Act 1982. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 15 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Civil Aviation Act 1982 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Civil Aviation Act 1982 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 17 to 19 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

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

## Opinion

In my opinion

the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Civil Aviation Authority for the year ended 31 March 2007 and the balances held at that date and has been properly prepared in accordance with Section 15(4) of the Civil Aviation Act 1982 and the directions made thereunder by the Treasury; and

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

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

4 March 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS



# Post Office Act 1969

Advances to the Post Office Corporation (Secretary of State for Trade and Industry)

Account presented pursuant to the Post Office Act 1969

## Foreword

### Scope of the Account

- 1 This account is prepared in compliance with section 39<sup>1</sup> of the Post Office Act 1969 and is required to show
  - i sums received by the Secretary of State under section 37 (2);
  - ii sums issued to the Secretary of State under section 37 (3); and
  - iii the disposal of those sums.

### Secretary of State's power to make loans

- 2 Section 37 of the Post Office Act 1969<sup>2</sup> enabled the Secretary of State, with the approval of HM Treasury, to lend to the Post Office any sums which it has power to borrow under section 73 of the British Telecommunications Act 1981. Sums needed for such loans were issued by HM Treasury to the Secretary of State who could, with the approval of Treasury, give directions for repayment. Loans made to the Post Office corporation under section 37 before midnight on 25 March 2001 have been, since midnight on 25 March 2001, by virtue of a scheme made under section 60 of the British Telecommunications Act 1981, loans to Royal Mail Group plc (at the time of the scheme it was named Consignia plc). Ownership of Consignia plc was transferred on 26 March 2001 to the Post Office company by virtue of section 62 of the Postal Services Act 2000. The Secretary of State is required by section 37(4) of the 1969 Act to pay into the National Loans Fund sums received in respect of interest on and repayment of principal on those loans.

### Limits on borrowing

- 3 Under section 74(2) of the British Telecommunications Act 1981, which applied to loans made to the Post Office before 26 March 2001, the aggregate amount of loans outstanding by the Post Office was not at any time to exceed £1,200 million [note that this could be increased by statutory instrument to £1,700 million]. Section 74 of the 1981 Act was amended by section 115(6) of the 2000 Act with effect from 28 September 2000 so that the aggregate amount of loans outstanding to the Post Office and its subsidiaries should not exceed £5,000 million.

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1 Section 39 of the Post Office Act 1969 was amended by S.I. 1974/691 and by section 5 of the Post Office (Banking Services) Act 1976. It was repealed by Schedule 9 to the Postal Services Act 2000 and its repeal was commenced by S.I. 2001/1148 (C.37) with effect from 26 March 2001. Paragraph 12 of S.I. 2001/1148 saves section 39 insofar as it relates to a loan made before 26 March 2001 by the Secretary of State under section 37 of the 1969 Act.

2 Section 37 of the Post Office Act 1969 was amended by S.I. 1974/691, by paragraph 51(3) of the British Telecommunications Act 1981 and by section 115 (2) of the Postal Services Act 2000 with effect from 28 September 2000 to permit loans to be made to any subsidiary of the Post Office. It was repealed by Schedule 9 to the Postal Services Act 2000 and its repeal was commenced by S.I. 2001/1148 (C.37) with effect from 26 March 2001. Paragraph 11 of S.I. 2001/1148 saves section 37(2) to (4) in respect of a loan made before 26 March 2001 by the Secretary of State.

Section 74 was subsequently repealed by Schedule 9 of the 2000 Act, and its repeal commenced by S.I.2000/2957 (C.88), with effect from 26 March 2001. Thereafter under section 71(1) of the 2000 Act the Crown's financial arrangements<sup>3</sup> with Consignia Holdings plc (company number 4074919, which was renamed Royal Mail Holdings plc on 4 November 2002) and any of its subsidiaries are not to exceed £5,000 million, or such greater sum as the Secretary of State may by order specify.

### Loans made by the Secretary of State, interest payable and repayment of principal

- 4 A £500m NLF loan facility was made available to Royal Mail by the Secretary of State, acting as an agent for the NLF, to assist with the company's acquisition of German Parcel. This facility was utilised on the 6 February 2001 and it comprises 20 separate tranches of £25m each, the first two tranches of which do not begin to mature until 20 March 2021 and then subsequently two more tranches then mature every 6 months after that until the final remaining tranches mature on 20 September 2025. Royal Mail makes bi-yearly interest payments on the loan. In accordance with section 5 of the National Loans Fund Act 1968, HM Treasury prescribed the rate of interest applicable to each loan. As at 31 March 2007, the amounts and terms of loans made to the Royal Mail Holdings plc and its subsidiaries were as follows

Amount (£)	Rate of interest per cent	Principal to be paid off
25,000,000	5.26	20 March 2021
25,000,000	5.56	20 March 2021
25,000,000	5.7	20 September 2021
25,000,000	5.7	20 September 2021
25,000,000	5.7	20 March 2022
25,000,000	5.7	20 March 2022
25,000,000	5.63	20 September 2022
25,000,000	5.98	20 September 2022
25,000,000	5.87	20 March 2023
25,000,000	6.05	20 March 2023
25,000,000	6.05	20 September 2023
25,000,000	6.03	20 September 2023
25,000,000	6.03	20 March 2024
25,000,000	6.03	20 March 2024
25,000,000	6.12	20 September 2024
25,000,000	5.94	20 September 2024
25,000,000	5.94	20 March 2025
25,000,000	5.94	20 March 2025
25,000,000	5.94	20 September 2025
25,000,000	5.51	20 September 2025

As at 31 March 2007, the balance outstanding on the principal loan is £500m.

*Sir Brian Bender KCB*  
Principal Accounting Officer and Permanent Secretary

12 July 2007

3 Section 71(2) of the Postal Services Act 2000 provides that the Crown's financial arrangements with the Post Office company are the aggregate of;

- a amounts outstanding in respect of the principal of loans made under section 37 of the Post Office Act 1969,
- b amounts outstanding (otherwise than by way of interest) in respect of sums paid by HM Treasury in fulfilment of guarantees given under section 38 of that Act,
- c amounts outstanding in respect of the principal of loans made under section 68 of the Postal Services Act 2000,
- d amounts outstanding (otherwise than by way of interest) in respect of sums paid by the Secretary of State in fulfilment of guarantees given under section 69 of the Postal Services Act 2000,
- e amounts outstanding in respect of the principal of debt securities issued in pursuance of section 63 of this Act, and
- f liabilities extinguished under section 70 of the Postal Services Act 2000 so far as they are not replaced with corresponding liabilities.

### **Statement of the Secretary of State's and Accounting Officer's responsibilities**

Under Section 39 of the Post Office Act 1969 (see footnote 1 to this Foreword) the Secretary of State for Trade and Industry is required to prepare an account for each financial year in the form and on the basis determined by HM Treasury of sums received by the Secretary of State under section 37(2) of the 1969 Act and of sums issued to the Secretary of State under section 37(3) and of the disposal by him of those sums respectively. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year-end.

HM Treasury has appointed the Permanent Secretary at the Department of Trade and Industry as Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in 'Government Accounting'.

## Post Office Act 1969

Account, prepared under Section 39 of the Post Office Act 1969, of the Receipts and Payments by the Secretary of State for Trade and Industry under Section 37 of the Post Office Act 1969 for the year ended 31 March 2007.

### Receipts

	<b>2006-2007</b>	2005-2006
	£	£
Balance at 1 April	0	0
From National Loans Fund	0	0
<i>From the Royal Mail Group plc</i>		
Repayments of Loans	0	0
Interest on Loans	<b>29,170,000</b>	29,170,000
	<b><u>29,170,000</u></b>	<u>29,170,000</u>

### Payments

	<b>2006-2007</b>	2005-2006
	£	£
Advances to the Royal Mail Group plc	0	0
<i>To the National Loans Fund</i>		
Repayments of Loans	0	0
Interest on Loans	<b>29,170,000</b>	29,170,000
Balance at 31 March	0	0
	<b><u>29,170,000</u></b>	<u>29,170,000</u>

The Accounting Officer has authorised these accounts to be issued on

Sir Brian Bender KCB  
Principal Accounting Officer and Permanent Secretary

12 July 2007

# Statement on Internal Control

## Scope of responsibility

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

The Account is administered and managed by the Royal Mail & Postal Services Team of the Shareholder Executive within the Department in conjunction with Amey Accounting and Business Services. The Secretary of State, with the approval of Treasury, has the power to make loans to Royal Mail Holdings plc or any of its subsidiaries any sums which it has power to borrow. Sums needed for such loans are issued by HM Treasury to the Secretary of State. The interest on loans is at such rates as the Secretary of State, with the approval of HM Treasury, may direct. Subject to this, loans are on such terms as set out in the Finance Agreement. The Secretary of State is required to pay into the National Loans Fund sums received in respect of interest on and repayment of principal on those loans.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the Post Office National Loans Fund Account for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

Guidance on risk management is available to staff in the Royal Mail & Postal Services Team through the Risk Management Intranet site. This site includes the Department's risk management policy and has specific guidance on undertaking risk self-assessment. Risk management workshops are available to all staff and practical guidance on its application has been incorporated into a wide range of DTI training courses that staff in Shareholder Executive attends. These courses cover all ranges of staff and are tailored to be appropriate to their authority and duties. The Royal Mail & Postal Services Team of the Shareholder Executive maintains a Risk Register that is regularly updated.

## The risk and control framework

The risk management framework operates, within the Department, through the initial identification of risks that threaten achievement of objectives. These risks are then evaluated in terms of impact and probability. Consideration is then given to the actions required to effectively manage each risk. This process establishes the level of residual risk against which the Department is exposed which is monitored over time.

## Review of effectiveness

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

There were no significant internal control issues during the course of 2006-2007.

*Sir Brian Bender KCB*  
Principal Accounting Officer and Permanent Secretary

12 July 2007

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Post Office National Loans Fund Account (PO NLF) for the year ended 31 March 2007 under section 39 of the Post Office Act 1969. These comprise of the financial statements which have been prepared under the accounting policies set out in the Statement of the Secretary of State's and Accounting Officer's responsibilities.

## Respective responsibilities of the Secretary of State, Accounting Officer and Auditor

The Secretary of State and Accounting Officer are responsible for preparing the Foreword and the financial statements in accordance with the Post Office Act 1969 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Secretary of State's and Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with section 39 of the Post Office Act 1969 and Treasury directions made thereunder. I report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I also report if, in my opinion, the Accounting Officer 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 relevant authorities regarding transactions is not disclosed.

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

I read the information contained in the Foreword 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 other information.

## Basis of audit opinion

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

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

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2007;
- the financial statements have been properly prepared in accordance with section 39 of the Post Office Act 1969 and directions made thereunder by Treasury.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Audit General

16 July 2007

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



# Scotland Act 1998

Advances to Scottish Enterprise, Water Authorities, and Registers of Scotland

## Foreword

### Scope of the account

This account is prepared in compliance with section 72(a) of the Scotland Act 1998 and is required to show

- The sums issued to the Secretary of State for Scotland out of the National Loans Fund under section 67 of the Scotland Act 1998 to enable him to make loans to the Scottish Ministers under section 66 of the Act;
- Under Section 71 of the Scotland Act the sums issued to the Secretary of State for Scotland out of the National Loans Fund prior to the enactment of the Scotland Act;
- The loans so made by the Secretary of State;
- The sums received by the Secretary of State in respect of interest on and repayment of loans under section 66 of the Scotland Act 1998; and
- The payments into the National Loans Fund of the sums received under section 66.

### Secretary of State's power to make loans

Under section 66 of the Scotland Act 1998, the Secretary of State has the power to lend to the Scottish Ministers sums required for the purpose of (a) meeting a temporary excess of sums paid out of the Scottish Consolidated Fund over sums paid into that fund, or (b) providing a working balance in the Fund. Under section 67 of the Act, the Treasury may issue to the Secretary of State out of the National Loans Fund such sums as are required under section 66.

### Limits of borrowing

Under section 67(2) the aggregate at any time outstanding in respect of the principal of sums borrowed shall not exceed £500 million. This limit does not apply to the initial debt of advances to Scottish Water Authorities, Scottish Homes, Scottish Enterprise and the Registers of Scotland which existed before the enactment of the Scotland Act 1998 and which were issued within the limits set by the relevant legislation as detailed below.

### Outstanding capital balances

At 1 April 2006, total capital balances outstanding were £845,130,625, and after repayments during the year of £35,106,250, capital balances outstanding at 31 March 2007 were £810,024,375.

### History of Accounts

The advances outstanding at 31 March 2006 were made prior to 1 July 1999, under the terms of the Housing (Scotland) Act 1988 (Scottish Homes), the Local Government etc. (Scotland) Act 1994 (Water Authorities), and the Scottish Development Agency Act 1975 (Scottish Enterprise). Loans to Scottish Enterprise and to Scottish Homes have been repaid in full and the legislation in relation to the Scottish Homes has now been repealed.

Prior to 1 July 1999, responsibility for the preparation of this account fell to the Scottish Office. Upon devolution, the responsibility transferred to the Scotland Office. The Scotland Office first prepared accounts for the year 1 April 2000 – 31 March 2001. Accounts were prepared prior to 1 July 1999 under the terms of the Housing (Scotland) Act 1988 (Scottish Homes) and the Local Government etc. (Scotland) Act 1994 (Water Authorities). Registers of Scotland (ROS) was established as a Trading Fund on 1 April 1996 and the loan was deemed to have been issued from the NLF as ROS had no direct sponsor department, however, no physical payment has been made from the NLF. The deemed loan was based on the value of the assets and liabilities appropriated to the Trading Fund. 60 per cent was attributed to capital loans to be paid through the NLF and 40 per cent as public dividend capital, repayable through the Consolidated Fund. No accounts were prepared for Registers of Scotland prior to 2000-2001.

Although I was not in post during the accounting period for the 2006-2007 Statement on Internal Control, my predecessor, the Chair of our Joint Management Board and the Chair of the Audit Committee have advised me about the control environment in the Office up to the approval of the accounts.

### **Statement of Secretary of State for Scotland's responsibilities**

Under section 72(a) of the Scotland Act 1998, the Secretary of State for Scotland is required to prepare, for each financial year, in such form and manner as the Treasury may direct, an account of sums paid and received by him under sections 66, 67 and 71 of the Scotland Act 1998. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end. The Treasury has appointed the Head of Scotland Office as Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set in the Accounting Officers' Memorandum issued by the Treasury and published in Managing public Money

*David Middleton*  
Accounting Officer  
Scotland Office

30 November 2007

## Scotland Act 1998

Account prepared under section 72(a) of the Scotland Act 1998 of the Receipts and Payments of the Secretary of State for Scotland under sections 66, 67 and 71 of the Scotland Act 1998 for the period 1 April 2006 to 31 March 2007.

### Receipts

	2006-2007 £	2005-2006 £
<i>Received from Water Authorities by way of</i>		
Interest on advances	<b>55,425,078</b>	56,175,078
Repayment of advance	<b>35,000,000</b>	10,000,000
<i>Received from Registers of Scotland</i>		
Interest on advances	<b>269,178</b>	278,076
Repayment of advance	<b>106,250</b>	106,250
Total of interest payments	<b>55,694,256</b>	56,453,154
Total of repayments of advance	<b>35,106,250</b>	10,106,250
<b>Total receipts</b>	<b>90,800,506</b>	66,559,404

### Payments

	2006-2007 £	2005-2006 £
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>55,425,078</b>	56,175,078
Repayment of advance	<b>35,000,000</b>	10,000,000
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>269,178</b>	278,076
Repayment of advance	<b>106,250</b>	106,250
Total of interest payments	<b>55,694,256</b>	56,453,154
Total of repayments of advance	<b>35,106,250</b>	10,106,250
<b>Total payments</b>	<b>90,800,506</b>	66,559,404

Note: Statement of balances at 31 March 2007

	Advances at 1 April 2006 £	Advances during 2006-2007 £	Advances repaid during 2006-2007 £	<b>Advances outstanding at 31 March 2007 £</b>
Water Authorities	841,890,000	0	35,000,000	<b>806,890,000</b>
Registers of Scotland	3,240,625	0	106,250	<b>3,134,375</b>
Total	<u>845,130,625</u>	<u>0</u>	<u>35,106,250</u>	<b><u>810,024,375</u></b>

# Assurance Statement on Internal Control

## Scope of responsibility

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

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Scotland Office for the year ended 31 March 2007 and up to the date of approval of the accounts, and accords with the Treasury guidance.

## Capacity to handle risk

I acknowledge my overall responsibility for the effective management of risk throughout the Scotland Office.

Registers that identify, assess and set out mitigating actions to significant risks are in place across the Office and are regularly reviewed by the office management group. Risk management is incorporated into the planning and decision making processes, with assessment of risk to business objectives documented, along with mitigating actions and reported on through risk registers and other means which are (regularly) reviewed and updated.

## The risk and control framework

The key elements of the Risk Management Policy and Framework document are maintained in the Scotland Office as follows

- A formal process for identifying, evaluating, managing and reporting risk;
- A system of analysis and reporting that identifies risk to objectives, risk impact and likelihood, current and planned mitigating action and individual risk owners; and
- Formal programme and project management disciplines, incorporating procedures for the management of risk.

The other key elements in the control system, which are followed, are: regular management information, financial and administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes

- Approval by the Management Group of the business plans;
- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Management Group;
- Regular reviews by the Management Group of periodic and annual financial reports prepared to indicate financial performance against the forecasts;
- Target setting to measure financial and other performance;

- A formal system of financial and other controls, consisting of core control checks with an auditable trail of evidence, and a review and reporting mechanism to provide assurances from Budget Managers, that internal controls are in place and operating effectively; and
- Business Continuity Plans, ensuring that key activities can continue effectively following a disruption continue to be developed and refined.

### Review of effectiveness

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

I confirm that all key controls identified as a result of an assessment of my key business risks, in addition to the following key financial areas, are in place for the following and have been applied

- all expenditure / income has been recorded and properly spent / received with regard to propriety and regularity;
- the expenditure / income spent and received comply with law and regulations including those which provide the legal framework within which the Office conducts its activities;
- expenditure has been properly classified and transfers of expenditure between expenditure classifications have only been made in accordance with the Finance Manual;
- there have been no breaches of delegated financial authority;
- budgets are monitored regularly, comparing actual expenditure to forecasts, and variances reported upon;
- controls are in place to ensure that assets of the Scotland Office are safeguarded against unauthorised use or disposal;
- there are adequate control procedures in place to guard against fraud;
- there have been no breaches of the Finance Manual regarding hospitality and gifts;
- all losses and special payments have been reported, authorised and recorded in accordance with the Finance Manual; and
- all instances of loss resulting from a weakness in internal financial control have been reported and any necessary remedial action taken.

*David Middleton*  
Accounting Officer

30 November 2007

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements under section 66 of the Scotland Act 1998. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

## Respective responsibilities of the Secretary of State, Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Scotland Act 1998 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Secretary of State's responsibilities.

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

I report to you my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with section 66 of the Scotland Act 1998 and Treasury directions made thereunder. I report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if the Scotland Office 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 relevant authorities regarding transactions is not disclosed.

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

I read the information contained in the Foreword 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 other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

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

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Scotland in respect of advances to the Scotland Enterprise, Scottish Water Authorities and Registers of Scotland for the year ended 31 March 2007;
- the financial statements have been properly prepared in accordance with section 66 of the Scotland Act 1998 and directions made thereunder by Treasury; and
- information given within the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General  
5 December 2007

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

# Government of Wales Act 2006

Accounts presented pursuant to Act 2006 s.121, s.122 and s.123

## Scope of the Account

- 1 This Account is prepared in compliance with section 123 of the Government of Wales Act 2006 and is required to show
  - a Loans made by the Secretary of State to the National Assembly for Wales under section 123 or treated as made by paragraph 11(6) of schedule 3 or paragraph 44(6) of schedule 11; and
  - b Repayments and payments of interest made to the Secretary of State in respect of those loans.

## Limits on borrowing

- 2 Section 122 of the Government of Wales Act 2006 imposes a limit of £500 million on the National Assembly for Wales' aggregate outstanding borrowings from the National Loans Fund.
- 3 At 31 March 2007 the aggregate of amounts outstanding against the limit was

	£
Borrowing outstanding	11,842,968
Sums issued by the Treasury	0
Total	<u>11,842,968</u>

## Loans made by the Secretary of State, Interest Payable and Repayment of Principal

- 4 In 2006-2007 no new loans were issued by the Secretary of State to the Welsh Ministers. The amount outstanding relates to advances made previously to
  - Development Board for Rural Wales;
  - Mid Wales Development Corporation; and
  - Welsh Development Agency.

The Development Board for Rural Wales and the Mid Wales Development Corporation were abolished on 1 October 1998. Under sections 130 and 136 of the Government of Wales Act 1998, all property, rights, functions and liabilities were transferred to the Welsh Development Agency, including responsibility for these loans.

The Welsh Development Agency was abolished on 1 April 2006 under the Welsh Development Agency (Transfer of Functions to the National Assembly for Wales and Abolition) Order 2005. The Welsh Development Agency's property, rights, functions and liabilities transferred to the National Assembly for Wales. The National Assembly for Wales is now responsible for the repayment of these loans previously held by the Welsh Development Agency.

The last loan, which was issued to the former Development Board for Rural Wales, is due to mature on 15 September 2041. The loan issued to the former Welsh Development Agency will mature on 23 March 2008.



The Government of Wales Act 2006 created the Welsh Consolidated Fund. The repayment of NLF loans held by the National Assembly for Wales is now made via the Welsh Consolidated Fund to the Ministry of Justice and thereafter paid to the Treasury.

**Statement of Secretary of State's and Accounting Officer's responsibilities**

Under Section 123 of the Government of Wales Act 2006, the Secretary of State for Wales is required to prepare accounts for each financial year in the form and on the basis determined by the Treasury for loans issued to the Welsh Ministers. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year-end.

The Treasury has appointed the Head of the Wales Office as Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in *Managing Public Money*.

*Alan Cogbill*  
Accounting Officer for the Wales Office

17 April 2008

# Government of Wales Act 2006

Account, prepared under section 123 of the Government of Wales Act 2006 of the receipts and payments of the Secretary of State for Wales under the legislation shown for the year ended 31 March 2007.

	2006-2007 £	2005-2006 £
<b>Receipts</b>		
Sums received from the National Assembly for Wales in respect of advances made to		
<i>Former Welsh Development Agency Act 1975</i>		
Repayment of Principal	9,802	20,295
Interest	777	2,203
<i>Former Development Board for Rural Wales</i>		
Repayment of Principal	4,600	4,003
Interest	569,001	569,598
<i>Former Mid Wales Development Corporation</i>		
Repayment of Principal	17,757	15,440
Interest	1,153,834	1,156,151
<b>Total receipts</b>	<b>1,755,771</b>	<b>1,767,690</b>
	<b>2006-2007 £</b>	<b>2005-2006 £</b>
<b>Payments</b>		
Advances to the National Assembly for Wales	0	0
<i>Payments to the National Loans Fund</i>		
Repayment of principal	32,159	39,738
Interest	1,723,612	1,727,952
<b>Total payments</b>	<b>1,755,771</b>	<b>1,767,690</b>

Notes

1 Statement of balances

	Former Welsh Development Agency £	Former Development Board for Rural Wales £	Former Mid Wales Development Corporation £	<b>Total £</b>
Outstanding at 1 April 2006	14,802	3,950,104	7,910,221	<b>11,875,127</b>
Repaid during the year	(9,802)	(4,600)	(17,757)	<b>(32,159)</b>
<b>Outstanding at 31 March 2007</b>	<b>5,000</b>	<b>3,945,504</b>	<b>7,892,464</b>	<b>11,842,968</b>

## 2 Post year-end events

On 9 May 2007, a new Ministry of Justice was established. The new Ministry performs the functions and activities of the former Department for Constitutional Affairs. The administrative functions of the Wales Office fall under the Ministry of Justice umbrella.

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

*Alan Cogbill*  
Accounting Officer for the Wales Office

17 April 2008

## Statement on Internal Control

This statement is given in respect of the account of National Loans Fund advances to the former Welsh Development Agency, the former Development Board for Rural Wales and the former Mid Wales Development Corporation now held by the National Assembly for Wales.

### Scope of responsibility

As Accounting Officer, I have the responsibility for maintaining a sound system of internal control that supports the achievement of the Wales Office's policies, aims and objectives set by the Secretary of State, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in my appointment letter and as set out in Managing Public Money.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Wales Office for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

As Accounting Officer I acknowledge my overall responsibility for the effective management of risk throughout the Department.

### Risk and control framework

As part of the Ministry of Justice, the Wales Office applies the Ministry's Risk Management Policy and framework document. A risk register identifying risks linked to Wales Office business objectives and setting out actions to mitigate significant risks is agreed and reviewed at Management Board meetings with Heads of Departments taking ownership for action and review periods within their specific areas of Business.

The National Assembly for Wales held the loans and made the repayment of advances and interest thereon during 2006-2007. The risks associated with undertaking these tasks were incorporated within the National Assembly for Wales' risk policy. During 2006-2007 the Ministry of Justice was responsible for passing these remittances to the Secretary of State for payment into the National Loans Fund. Both the National Assembly for Wales and the Ministry of Justice provide these services under Service Level Agreements.

The Wales Office has an Audit Committee that supports me as Accounting Officer by offering objective advice on issues concerning the risk, control and governance of the Department. Its role is to consider whether the management and governance arrangements are sufficient to support the Accounting Officer's responsibilities. I am also advised by Internal Audit of the Ministry of Justice who operate according to Government Internal Audit Standards.

## Review of effectiveness

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

*Alan Cogbill*  
Accounting Officer for the Wales Office

17 April 2008

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

I certify that I have audited the financial statements on pages 39 to 40 under section 123 of the Government of Wales Act 2006. These comprise the Receipts and Payments Account and the related notes. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Government of Wales Act 2006 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Secretary of State's and Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements properly present the receipts and payments and whether the account has been properly prepared in accordance with the Government of Wales Act 2006 and HM Treasury directions made thereunder. I also report whether in all material respects the receipts and payments 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 Wales Office 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 is not disclosed.

I review whether the Statement on Internal Control reflects the Wales Office'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 Wales Office's corporate governance procedures or its risk and control procedures.

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

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements.

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

## Audit opinion

In my opinion

- the financial statements properly present the receipts and payments for the year ended 31 March 2007 and balances as at that date;
- the financial statements have been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by HM Treasury; and
- information given within the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

21 April 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Accounts of Loans to Local Authorities





# Foreword

## Introduction

These accounts have been prepared by the Public Works Loans Board (PWLB), under a direction issued by HM Treasury in accordance with Section 3 (6) of the National Loans Act 1968. The accounts show the interest and similar payments paid by PWLB customers in servicing their borrowing. The accounts do not demonstrate the resources that have been used to deliver the PWLB's objectives, which are instead reported in the DMO Report and Account 2006-2007.

## Brief history and background of the Public Works Loans Board

The PWLB is an independent statutory body that originated in 1793 and became established on a permanent basis in 1817. Since 1946 it has consisted of a maximum of twelve Commissioners appointed by the Crown to hold office for four years; three Commissioners retire each year on 1 April but are eligible for re-appointment.

In July 2002 responsibility for the administration of the PWLB's operations was transferred from National Investments and Loans Office (NILO) to the UK Debt Management Office (DMO), NILO then being abolished. Since then, the PWLB has retained its statutory identity but otherwise operated as a business unit of the DMO from shared office accommodation.

Monies are provided by Act of Parliament and drawn from the National Loans Fund (NLF). The NLF is the government's main borrowing account and is administered by HM Treasury, which determines the rates of interest and thereby the maximum maturity for loans.

The PWLB's lending policy and operational arrangements are set out in Circulars issued with the Commissioners' approval and displayed on the PWLB's website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

## Current Commissioners of the PWLB

Mr John Parkes, CBE DL Chairman	Treasurer and Pro-Chancellor, University of Hull; Director, EMIH Ltd; Former Chief Executive, Humberside County Council
Mrs Rachel Terry Deputy Chairman	Former Associate, Tribal Treasury Services Limited; Former Partner, Touche Ross & Company
Mr Brian Tanner, CBE DL	Chairman, Taunton & Somerset NHS Trust; Former Chief Executive, Somerset County Council
Mr Lawrence Nippers, MBE	Former Director of Finance and Central Services, Newport City Council
Mrs Sarah Wood	Former Director of Economic and Environmental Policy, Local Government Association
Miss Mei Sim Lai OBE	Principal, LaiPeters
Mr Gordon Edwards	Corporate Director for Resources Management, Aberdeen City Council
Mrs Philippa Foster Back OBE	Director, Institute of Business Ethics
Mr Tony Caplin	Chairman: Ealing Hospital NHS Trust, Disenco plc; Non-Executive Director: Panmure Gordon plc, Hand Picked Hotels Ltd

## The role of the Commissioners

The functions of the Commissioners, derived chiefly from the Public Works Loans Act 1875 (the 1875 Act) and the National Loans Act 1968 (the 1968 Act), are to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. At present nearly all borrowers are local authorities requiring loans for capital purposes. The Commissioners are legally required, before making a loan, to satisfy themselves that there is sufficient security for its repayment.

In practice the Commissioners' main role is to determine the general lending policy of the PWLB and to deal with related matters. The Board has delegated to the Secretary day-to-day responsibilities for authorising loans and ensuring the collection of payments due. The Secretary acts as the Accounting Officer of the PWLB and attends meetings of the Board.

The Commissioners act as a Board to discharge their duties. The Commissioners are not paid for their services.

Management of credit risk is described in Note 10 to the accounts.

### **Audit arrangements**

The accounts are audited by the Comptroller and Auditor General in accordance with Section 3 (6) of the 1968 Act.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that PWLB's auditors are aware of that information. So far as he is aware, there is no relevant audit information of which PWLB's auditors are unaware.

## Management Commentary

### **Factors influencing financial performance**

Movements in the PWLB balance sheet and its corresponding pattern of income are driven by borrower demand for new loans and the repayment (early or otherwise) of existing loans. PWLB does not take positions to enhance its income or to otherwise influence its financial performance. All interest receivable by PWLB from borrowers is payable to the NLF. The demand for new loans and the pattern of early redemption by borrowers of existing loans is greatly influenced by changes in market borrowing rates and borrower expectation of future interest rate changes.

### **Results for 2006-2007**

In 2006-2007, PWLB agreed new loans to borrowers of £12,354 million compared to £8,952 million the previous year. Borrowers took out longer loans on average in 2006-2007 most notably to benefit from the extension of the maximum maturity of loans from thirty to fifty years which came into effect from 7 December 2005. This led to an increase over the year in the average period to maturity of fixed rate loans to 27.3 years (2006: 22.2 years). There was also a reduction in the weighted average interest rate of PWLB loans outstanding at the balance sheet date to 5.97 per cent (2006: 6.21 per cent).

PWLB borrowers redeemed early loans of value £10,698 million in 2006-2007 (2005-2006: £2,501 million). Premiums paid by PWLB customers for early redemption of loans were £354 million in 2006-2007 (2005-2006: £189 million). Discounts paid to PWLB customers for early redemption of loans were £169 million in 2006-2007 (2005-2006: £10 million).

At 31 March 2007, PWLB held loan assets outstanding to borrowers of £48,671 million (2006: £47,704 million), inclusive of accrued interest payable of £762 million (2006: £619 million). PWLB also held cash balances at the Bank of England of £211 million (2006: £60 million) comprising monies in transition between the NLF and PWLB borrowers.

In 2006-2007 PWLB's income from interest receivable on loans was £2,895 million (2005-2006: £2,863 million). The increase in interest income on the previous year was mainly due to higher average balances of PWLB loans outstanding over the course of 2006-2007 (£47,951 million) compared to the previous year (£47,084 million).

The corresponding liability of the Board to the NLF comprised loan principal of £48,110 million (2006: £47,124 million) with combined loan interest of and early redemption premiums of £772 million (2006: £640 million) outstanding.

PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget agreed with HM Treasury. In 2006-2007, the DMO received fees and charges of £4.3 million (2005-2006: £3.1 million) from PWLB customers in respect of new loans issued.

### **The loans**

Section 3 (11) and Schedule 4 of the 1968 Act authorise the Commissioners to make loans to any local authority in Great Britain for any purpose for which the authority has power to borrow and to certain other authorities and persons for limited purposes. The Commissioners also have powers to lend to harbours.

The amount which the Commissioners may lend, or undertake to lend, is provided by Section 4 of the 1968 Act, which permits the Commissioners to make loans up to a limit of the aggregate of

- any commitments of the Commissioners outstanding in respect of undertakings entered into by them to grant local loans; and
- any amount outstanding in respect of the principal of any loans.

The current limit of the aggregate, set by Finance Act 1990, is £55 billion.

All loans are drawn from, and repayments are paid back to, the NLF. All interest and premiums on early redemption paid to PWLB by borrowers is paid back to the NLF. Discounts payable on early redemptions are drawn from the NLF.

In accordance with Sections 3 (2) and 5 of the 1968 Act, interest on loans made by the Commissioners is payable at such rates as HM Treasury determines.

Loans made by the Commissioners are repayable within a period not exceeding that authorised by the Act authorising the local authority to borrow, or if no period is so authorised, they are repayable within 50 years (Section 11 of the 1875 Act and Section 2 (2) of the Local Authorities Loans Act 1945). In practice, the maximum period for which the Commissioners may advance new loans is the same as the longest period for which HM Treasury has set a rate, currently 50 years. Prior to February 2000, PWLB issued loans for up to 60 years.

The Commissioners are normally prepared to lend to an authority up to the available capacity in its legal borrowing limit as determined under Part 1, Chapter 1 of the Local Government Act 2003. The Commissioners require a statement of confirmation from the borrowing authority that it is complying with the appropriate requirements of the Board's Circulars and the relevant legislation with regard to the council's borrowing powers.

Section 5 (3) of the 1875 Act requires the Commissioners to prepare for each financial year a report of their transactions during the year, including a statement of loans approved and advanced. These reports are presented to Parliament and subsequently published.

## Statement of Accounting Officer's responsibilities

Under Section 3 (6) of the National Loans Act 1968 the Commissioners are required to prepare an account for each financial year in the form and on the basis determined by HM Treasury.

The Public Works Loan Board Account is prepared on an accruals basis, as directed by HM Treasury, and must give a true and fair view of the state of affairs of the Board and the cash flows for the financial year.

The Commissioners have appointed the Secretary to discharge their residual statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.

In preparing the accounts the Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Accounts, and apply suitable accounting policies on a consistent basis.

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

# Statement on Internal Control

## Scope of responsibility

The Public Works Loan Commissioners form an independent and unpaid statutory body, now described as a non-ministerial government department. They are empowered by the Public Works Loans Act 1875 as a body for 'the purpose of (making) loans'. Under Section 3 (6) of the National Loans Act 1968 the Public Works Loan Commissioners are required to prepare an account for each financial year in the form and on the basis determined by HM Treasury. Commissioners are required by statute to report annually to Parliament on their transactions in respect of monies issued to and loans granted by them and the execution of their duties as Commissioners.

The Commissioners have appointed me as Secretary to the Board and I am responsible for ensuring that appropriate advice is given to the Commissioners on all matters relating to financial propriety and regularity, for keeping accounts and submitting them for external audit by the National Audit Office, and for the efficient and effective use of resources and ensuring that the business is managed within the appropriate control framework. In determining the appropriate control measures I take assurance from the DMO's own Statement of Internal Control, which describes the wider control framework of the DMO of which the PWLB is a part. I understand that such assurances on controlling risks are relative and not absolute.

## The purpose of the system of internal control

The system of internal control is designed to reduce risk to an acceptable minimum and is based on an ongoing process to identify and prioritise risks that may jeopardise the efficient discharge of the PWLB's functions taking account of the impact of the risks. As the PWLB is a very small organisation conducting a long-established and narrowly focussed process the identification of operational risks is straightforward.

Since July 2002 certain features of the DMO's system of internal control have been incorporated into PWLB processes including loans being confirmed by a separate team and payments also being verified and released by non-PWLB staff. In addition the DMO's Business Continuity Plan takes full account of PWLB's needs and is subject to continual review and update.

The system of internal control has been in place for the year ended 31 March 2007 and up to the date of approval of this account, and accords with Treasury guidance. The DMO has made additions to the system of internal control over the course of the year.

## The risk and control framework and capacity to handle risk

The DMO has various formal mechanisms for managing its risks including operational and other risks relating to PWLB. Whilst the DMO includes risk management considerations as part of its normal business requirement, effort to further embed a strong risk management culture in every part of the organisation is being taken forward via a number of initiatives.

Heads of business units assess regularly whether risks to their operations are being managed effectively. New risks, and risks where there is an increased likelihood of occurrence, are highlighted and actions identified to ensure all will be effectively managed. The DMO has introduced Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of risks across the organisation. Project teams used risk registers to monitor and manage identified risks for each DMO project. The Managing Board has reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses, and resultant actions to improve controls.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistleblowing that cover PWLB activities. In establishing controls to deter money laundering the DMO has followed best practice, guidance in the Financial Services Authority's handbook and from the joint money laundering steering group. Commissioners have regard for the relevant principles of the *Code of Best Practice for Board Members of Public Bodies* issued by HM Treasury.

## Review of effectiveness

As Secretary, I have responsibility for reviewing the effectiveness of the system of internal control relating to PWLB within the context of the wider DMO system of internal control on which the Chief Executive of the DMO has given me assurances. My review of the effectiveness of the system of internal control for PWLB is a continuous process. It is informed by the work of the managers who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. A process to address weaknesses and ensure continuous improvement of the system is in place. I inform the Commissioners of details of Internal Audit reports and my response to any recommendations.

- PWLB team meet regularly to review risk management issues, including emerging risks, and to agree control improvements and other relevant measures as necessary.
- A controls team met regularly to review DMO's system of internal control including PWLB, recommend actions to management and to implement changes where appropriate. The team comprises the Head of the DMO's Risk Management Unit, the Controls and Compliance Manager, the Head of Internal Audit and the Finance Manager. The team has met regularly to identify weaknesses in the control environment, recommend actions to management and to lead the implementation of changes where appropriate. The controls team reports regularly to the Audit Committee on progress to improve the internal control system during the year.

During the year, responsibility for supporting me as Secretary of PWLB in matters relating to oversight of the governance, internal control and risk management processes was brought under the supervision of the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers, or equivalent, of each of the Exchequer Funds. These Funds, or the bodies handling such Funds, are the Public Works Loan Board, Commissioners for the Reduction of the National Debt, Debt Management Account, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The current membership of the Committee is

- Colin Price, Chair, non-executive member of the DMO's Managing Board, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive member of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, Director General Finance and Strategy at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee met for the first time on 23 January 2007 and again on 29 March and 26 June, and will meet four times a year.

The Exchequer Funds Audit Committee considered the 2006-2007 PWLB accounts in draft and provided me with its views before I formally signed the accounts.

- The DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.
- The DMO's Internal Audit team evaluates the effectiveness of the DMO's processes for risk management, control and governance in order to provide an independent and objective opinion to the DMO's Accounting Officer. This evaluation also encompasses PWLB processes.

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Public Works Loan Board for the year ended 31 March 2007 under the National Loans Act 1968. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Loan Commissioners, Secretary to the Public Works Loan Board and Auditor

As described in the Foreword, the Loan Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary to the Public Works Loan Board to discharge their responsibilities for the preparation of financial statements in accordance with Section 3 (6) of the National Loans Act 1968 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary is also responsible for preparation of the Foreword. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Loans Act 1968 and Treasury directions made thereunder. I also report whether in all material respects the financial transactions of the Public Works Loan Board have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if the Public Works Loan Board 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 other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Public Work Loans Board'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 form an opinion on the effectiveness of the Public Works Loan Board's corporate governance procedures or its risk and control procedures.

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

## Basis of audit opinion

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

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



## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and directions made thereunder by Treasury, of the state of the Public Works Loan Board's affairs as at 31 March 2007 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and directions made thereunder.

### **Audit opinion on regularity**

In my opinion, in all material respects the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

20 July 2007

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Income and Expenditure Account for the year ended 31 March 2007

	Notes	2006-2007 £m	2005-2006 £m
Interest income	2	<b>2,895</b>	2,863
Premiums/(discounts) receivable for early redemption	3	<b>185</b>	179
<b>Operating income</b>		<b>3,080</b>	3,042
Interest and premiums payable to National Loans Fund		<b>(3,080)</b>	(3,042)
<b>Operating surplus retained</b>		<b>0</b>	0

There were no gains or losses during the year other than those disclosed in the Income and Expenditure Account.

*The notes on page 58 to 64 form part of these accounts.*

## Balance Sheet as at 31 March 2007

	Notes	2007 £m	2006 £m
<b>Assets</b>			
Cash and balances at Bank of England	9d	211	60
Loans outstanding to customers	5, 6	48,671	47,704
<b>Total assets</b>		<b>48,882</b>	47,764
<b>Liabilities</b>			
Amounts owed to the National Loans Fund			
Loan principal	8	48,110	47,124
Loan Interest		773	639
Discount/premium on loan early redemption		1	1
<b>Total liabilities</b>		<b>48,882</b>	47,764

*The notes on page 58 to 64 form part of these accounts.*

Mark Frankel  
Secretary, Public Works Loans Board

18 July 2007

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

	Note	2007 £m	2006 £m
Net cash flow from operating activities	9a	<b>2,244</b>	(1,966)
Returns on investments and servicing of finance	9b	<b>(3,080)</b>	(3,042)
<b>Net cash flow before financing</b>		<b>(836)</b>	(5,008)
Financing	9c	<b>987</b>	5,021
Increase/(decrease) in cash		<b>151</b>	13

*The notes on page 58 to 64 form part of these accounts.*

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

## 1 Accounting policies

### *i Basis of preparation*

The accounts have been prepared in accordance with a direction given by HM Treasury and in accordance with UK GAAP in so far as they are appropriate to PWLB, under the historical cost convention.

During the year the PWLB has adopted FRS 26 'Financial Instruments: Measurement' for the purpose of valuing financial instruments. This is a change in accounting policy in respect of all loans. However no prior period adjustment to Total Assets or Total Liabilities has been necessary as the overall valuation of loans on an FRS 26 basis is not materially different from the valuation using the previous method. The PWLB has also early-adopted FRS 29 'Financial Instruments: Disclosures' with the exception of Appendix E 'Capital Disclosures', which is not relevant to the structure and operations of the PWLB.

### *ii Financial assets*

The PWLB classifies its financial assets as loans and receivables under FRS 26, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The PWLB does not sell financial assets and so does not designate any loans and receivables as available-for-sale nor held for trading.

All financial assets are recognised initially at fair value, normally the amount advanced to the borrower. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are based on the contractual terms of the loan. Owing principally to the long maturities of most loans and the volatile pattern of early repayments, the actual cash flows and the expected lives of the loans cannot be estimated reliably.

The market value of loans outstanding, disclosed in Note 6 to the accounts, is calculated as the aggregate net present value of future cash flows on each individual loan.

### *iii Recognition of assets and liabilities*

Loans and receivables are recognised when cash is advanced to borrowers and are derecognised when borrowers settle their obligations.

### *iv Income recognition*

Interest income is recognised, using the effective interest method.

## 2 Interest receivable

	<b>2007</b>	2006
	<b>£m</b>	£m
Fixed rate loans	<b>2,885</b>	2,846
Variable rate loans	<b>10</b>	17
	<b>2,895</b>	2,863

**3 Premiums/(discounts) receivable for early redemption**

	<b>2007</b>	2006
	<b>£m</b>	£m
Premiums payable	<b>354</b>	189
Discounts payable	<b>(169)</b>	(10)
	<b>185</b>	179

**4 Segmental analysis of gross interest receivable***4a Segmental Analysis by Type of Borrower 2007*

	2007 Local Authority	2007 Parish Council	2007 Harbour & Drainage Board	<b>2007 Total</b>
	£m	£m	£m	£m
Fixed rate loans	2,879	5	1	<b>2,885</b>
Variable rate loans	10	0	0	<b>10</b>
	<b>2,889</b>	<b>5</b>	<b>1</b>	<b>2,895</b>

*Segmental Analysis by Type of Borrower 2006*

	2006 Local Authority	2006 Parish Council	2006 Harbour & Drainage Board	<b>2006 Total</b>
	£m	£m	£m	£m
Fixed Rate Loans	2,840	5	1	<b>2,846</b>
Variable Rate Loans	17	0	0	<b>17</b>
	<b>2,857</b>	<b>5</b>	<b>1</b>	<b>2,863</b>

*4b Segmental Analysis by Country 2007*

	England £m	Wales £m	Scotland £m	<b>Total £m</b>
Fixed rate loans	2,228	194	463	<b>2,885</b>
Variable rate loans	10	0	0	<b>10</b>
	<b>2,238</b>	<b>194</b>	<b>463</b>	<b>2,895</b>

*Segmental Analysis by Country 2006*

	England £m	Wales £m	Scotland £m	<b>Total £m</b>
Fixed rate loans	2,187	196	463	<b>2,846</b>
Variable rate loans	17	0	0	<b>17</b>
	<b>2,204</b>	<b>196</b>	<b>463</b>	<b>2,863</b>

## 5 Loans outstanding to customers

	<b>2007</b>	2006
	<b>£m</b>	£m
Fixed rate loans	<b>47,734</b>	46,867
Variable rate loans	<b>175</b>	218
<b>Total – Loans outstanding</b>	<b>47,909</b>	47,085
Accrued interest on fixed rate loans	<b>761</b>	618
Accrued interest on variable rate loans	<b>1</b>	1
<b>Total – Accrued interest</b>	<b>762</b>	619
<b>Total – Loans outstanding</b>	<b>48,671</b>	47,704

## 6 Loans and advances to customers

### 6a Loans outstanding – Market Valuation

	<b>2007</b>	<b>2007</b>	2006	2006
	<b>Principal</b>	<b>Market</b>	Principal	Market
	<b>£m</b>	<b>Value</b>	£m	Value
	<b>£m</b>	<b>£m</b>	£m	£m
Fixed rate loans	<b>47,734</b>	<b>53,013</b>	46,867	55,888
Variable rate loans	<b>175</b>	<b>176</b>	218	219
	<b>47,909</b>	<b>53,189</b>	47,085	56,107

At 31 March 2007, £1 million of loans (2005-2006: £1 million) had been confirmed but not yet advanced. These loans are not included in the balance sheet.

The balance of outstanding loans includes £5 million of loans (2005-2006: £35 million) which borrowers had confirmed their intention to repay but as at the balance sheet date had not yet been received.

### 6b Loans outstanding – Country Analysis

	<b>2007</b>	2006
	<b>£m</b>	£m
England	<b>37,668</b>	36,613
Wales	<b>3,151</b>	3,256
Scotland	<b>7,090</b>	7,216
<b>Total</b>	<b>47,909</b>	47,085

6c *Loans outstanding – Maturity Analysis*

	<b>2007</b>	2006
	<b>£m</b>	£m
In not more than 3 months	<b>226</b>	237
In more than 3 months but not more than 1 year	<b>518</b>	670
In more than 1 year but not more than 2 years	<b>560</b>	681
In more than 2 years but not more than 3 years	<b>604</b>	776
In more than 3 years but not more than 4 years	<b>1,022</b>	890
In more than 4 years but not more than 5 years	<b>933</b>	1,254
In more than 5 years but not more than 6 years	<b>692</b>	1,094
In more than 6 years but not more than 10 years	<b>4,585</b>	5,293
In more than 10 years but not more than 15 years	<b>4,079</b>	4,664
More than 15 years	<b>34,690</b>	31,526
	<b>47,909</b>	47,085

6d *Loans outstanding – interest rate profile*

	<b>2007</b>	<b>2007</b>	2006	2006
	<b>Principal</b>	<b>Average</b>	Principal	Average
	<b>outstanding</b>	<b>rate</b>	outstanding	rate
	<b>£m</b>	<b>%</b>		<b>%</b>
<b>Loan type</b>				
Fixed rate (principal at maturity loans)	<b>46,052</b>	<b>5.93</b>	44,946	6.18
Fixed rate (equal instalments of principal loans)	<b>857</b>	<b>5.83</b>	1,005	5.89
Fixed annuity	<b>825</b>	<b>8.45</b>	916	8.62
Total – fixed rate loans	<b>47,734</b>	<b>5.97</b>	46,867	6.22
One month variable (principal at maturity loans)	<b>52</b>	<b>5.45</b>	54	4.57
Three month variable (principal at maturity loans)	<b>40</b>	<b>5.55</b>	71	4.58
Six month variable (principal at maturity loans)	<b>78</b>	<b>5.53</b>	86	4.53
One month variable (EIP loans)	<b>0</b>	<b>5.45</b>	1	2.91
Three month variable (EIP loans)	<b>0</b>	<b>5.51</b>	0	4.56
Six month variable (EIP loans)	<b>5</b>	<b>5.26</b>	6	4.6
Total – variable rate loans	<b>175</b>	<b>5.51</b>	218	4.55
Total – all loan types	<b>47,909</b>	<b>5.97</b>	47,085	6.21

EIP means equal instalments of principal.

The weighted average period for which rates are fixed is 27.5 years (2005-2006: 22.2 years) for fixed rate loans.

7 **New issue, maturity and early redemption of loans**

	<b>2007</b>	2006
	<b>£m</b>	£m
New agreed loans to customers	<b>12,354</b>	8,952
Loans maturing	<b>(831)</b>	(1,436)
Loans redeemed early	<b>(10,698)</b>	(2,501)
Net increase/(decrease) in loans	<b>825</b>	5,015

The net increase in loans does not equal the movement in loans on the balance sheet as that figure includes accrued interest.



## 8 Loan principal owed to National Loans Fund

	<b>2007</b>	2006
	<b>£m</b>	£m
Loan principal outstanding to customers	<b>47,909</b>	47,085
Loan principal repaid but not yet surrendered to NLF	<b>201</b>	39
Total loan principal owed to National Loans Fund	<b>48,110</b>	47,124

## 9 Analysis of cash flow

### 9a Reconciliation of operating income to net cash flow from operating activities

	<b>2006-2007</b>	2005-2006
	<b>£m</b>	£m
Operating income	<b>3,080</b>	3,042
(Increase)/decrease in loans and advances to customers	<b>(824)</b>	(5,015)
(Increase)/decrease in accrued income	<b>(143)</b>	(35)
Increase/(decrease) in loan interest payable to NLF	<b>133</b>	43
Increase/(decrease) in net early redemption discounts and premiums due to NLF	<b>(2)</b>	(1)
Net cash flow from operating activities	<b>2,244</b>	(1,966)

### 9b Return on investments and servicing of finance

Interest and premiums payable to National Loans Fund	<b>(3,080)</b>	(3,042)
Total returns on investments and servicing of finance	<b>(3,080)</b>	(3,042)

### 9c Financing

Increase/(decrease) in loans principal outstanding to NLF	<b>987</b>	5,021
<b>Total financing</b>	<b>987</b>	5,021

## 9d Analysis of cash balances

	<b>2007</b>	Movement	2006
	<b>£m</b>	£m	£m
Cash and balances at Bank of England	<b>211</b>	151	60

## 10 Risk management

Measurement and management of certain specific financial risks is described below.

*Credit risk:* credit risk is the risk that a counterparty will fail to discharge a contractual obligation, resulting in financial loss to the PWLB. Any such loss would be borne by the NLF.

### *Risk measurement*

Credit risk exposures (before collateral held or other credit enhancements) are shown below

	Wholly-owned by UK central government	Major local authorities	Parish councils and drainage boards	Harbour boards	<b>Total</b>
	£m	£m	£m	£m	£m
<b>2007</b>					
Cash and balances at					
Bank of England	211	0	0	0	<b>211</b>
Loans and advances to customers	0	47,811	92	6	<b>47,909</b>
Accrued income	0	761	1	0	<b>762</b>
<b>Total gross amount</b>	<b>211</b>	<b>48,572</b>	<b>93</b>	<b>6</b>	<b>48,882</b>
Loans confirmed but not advanced	0	1	0	0	<b>1</b>
<b>2006</b>					
Cash and balances at					
Bank of England	60	0	0	0	<b>60</b>
Loans and advances to customers	0	46,993	86	6	<b>47,085</b>
Accrued income	0	618	1	0	<b>619</b>
<b>Total gross amount</b>	<b>60</b>	<b>47,611</b>	<b>87</b>	<b>6</b>	<b>47,764</b>
Loans confirmed but not advanced	0	1	0	0	<b>1</b>

The components of 'Total gross amount' set out above are based on carrying amounts as reported in the balance sheet.

There were no overdue loan repayments, renegotiated loans or assets considered impaired at 31 March 2007 (or 31 March 2006).

Loans for which payment schedules had been amended in order to facilitate more efficient administration by local authorities are not considered to constitute renegotiated loans in credit risk terms and there were no such amendments for harbour boards.

The PWLB does not issue any financial guarantees.

### *Risk management*

As stated on page 48, the PWLB Commissioners are legally required before making a loan to satisfy themselves that there is sufficient security for its repayment. The vires of all new borrowers are checked.

The PWLB lends only to local authorities and other prescribed bodies.

Loans to local authorities, together with related interest, are automatically secured by statute on all revenue streams of the borrower.

Loans to harbour boards are secured on property and are made only with the provision of a guarantee from the local authority. In addition, the business plan is reviewed. No new loans were made to harbour boards in the year ended 31 March 2007 (or 31 March 2006).

The PWLB does not differentiate borrowers by credit rating.

The PWLB continuously monitors its total lending against a limit set by statute.

*Market risk:* market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises interest rate risk, currency risk and other price risk. PWLB activities are not considered to give rise to interest rate risk for the PWLB itself, but rather form part of the interest rate risk profile of the NLF. Interest rates on PWLB lending are set by the DMO.

There is no exposure to currency risk or other price risk.

*Liquidity risk:* liquidity risk is the risk that the PWLB will encounter difficulty in meeting obligations associated with financial liabilities.

PWLB activities are not considered to give rise to liquidity risk for the PWLB itself, but rather form part of the liquidity risk profile of the NLF. PWLB cash flow requirements are forecast and monitored daily.

## Accounts Direction Given by the Treasury in accordance with Section 3 (6) of National Loans Act 1968

- 1 The Public Works Loans Board shall prepare accounts for the financial year ended 31 March 2004 and subsequent financial years comprising
  - a a Foreword;
  - b a Statement of Internal Control;
  - c an Income and Expenditure Account;
  - d a Balance Sheet; and
  - e a Cash Flow Statementincluding such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with:
  - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account; and
  - b any other relevant guidance that the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts.

*David A Cruden, FCA*  
Head of Central Accountancy Team, Her Majesty's Treasury

25 February 2005



## Accounts of Loans to the Private Sector



# Harbours Act 1964

Advances to Statutory Harbour Authorities (Secretary of State for Transport)

Account presented pursuant to the Harbours Act 1964 (C40) s43(5)

## Foreword

### Background

- 1 The Secretary of State has powers to provide loans to statutory harbour authorities under section 11(1) of the Harbours Act 1964, as amended by section 40 of the Docks and Harbours Act 1966. Under section 43(5) of the 1964 Act the Secretary of State is required to prepare an account of receipts and payments in respect of loans under that Act.

### Scope of the Account

- 2 Accounts prepared in compliance with these provisions are required to show
  - i the sums issued to the Secretary of State out of the National Loans Fund;
  - ii the loans so made by the Secretary of State;
  - iii sums received by the Secretary of State in respect of interest on, and repayment of principal of, the loans made by him at ii above; and
  - iv the disposal of the sums received under iii.

### Secretary of State's powers to make loans

- 3 Loans may be made to statutory harbour authorities under section 11(1)(a) of the Harbours Act 1964 (as amended), with the approval of the Treasury, in order to help the authorities to meet expenses of a capital nature incurred in constructing, improving, maintaining, or equipping a harbour. Loans may also be made under section 11(1)(b) of that Act to enable statutory harbour authorities to pay sums due, by way of interest or repayment of principal, on loans made under section 11(1)(a).

### Limits on borrowing

- 4 Limits are usually placed on the total borrowings of individual harbour authorities by private Acts. Steps would be taken before any advances were made by the Secretary of State to ensure that these would not cause the borrowing authority to exceed any statutory limit applying.
- 5 There is a statutory limit of £75m on loans made under S11(1) of the Harbours Act 1964 to harbour authorities. This limit is set out in S1(1) of the Harbours (Amendment) Act 1970.

### Loans made by the Secretary of State, interest payable and repayment of principal

- 6 Loans made under section 11(1)(a) and (b) of the Harbours Act 1964 (as amended) are subject to interest at the rate prescribed by the Treasury at the date of issue. No such loans were made in 2006-2007.



**Statement of Secretary of State's and Accounting Officer's responsibilities**

- 7 Under Section 43 of the Harbours Act 1964 the Secretary of State for the Department for Transport is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.
  
- 8 The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Government Accounting* (TSO).

*Robert Devereux*  
Accounting Officer  
Department for Transport

25 February 2008

## Harbours Act 1964

Prepared under Section 43 of the Harbours Act 1964, of the Receipts and Payments of the Secretary of State for Transport, under Section 11 of the 1964 Act for the year ended 31 March 2007.

### Receipts

	£	Previous year £
Balance as at 1 April 2006	0	0
<i>Payments by the Harbour Authorities [s.43(1)]</i>		
Repayment of Loans	3,452	3,223
Interest on Loans	3,780	4,009
Less (discount) or plus premium on premature redemption	—	—
	<u>7,232</u>	<u>7,232</u>

### Payments

	£	Previous year £
<i>Payments to the National Loans Fund [s.43(4)]</i>		
Repayment of Loans	3,452	3,223
Interest on Loans	3,780	4,009
Less (discount) or plus premium on premature redemption	0	0
Balance at 31 March 2007	<u>0</u>	<u>0</u>
	<u>7,232</u>	<u>7,232</u>

### Note

The aggregate amount of principal outstanding in respect of advances to Harbour Authorities under the Harbours Act 1964 at 31 March 2007 was £51,391.01.

Robert Devereux  
Accounting Officer  
Department for Transport

25 February 2008

# Statement on Internal Control

## Scope of responsibility

Management and preparation of this account and the underlying accounting transactions are subject to the control environment of the Department for Transport to which the rest of this statement refers. There are no risks identified specifically for this account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility for signing this account.

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

## 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 departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

Leadership on risk management is provided by

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. In 2006-2007, the Department's Board included the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security (Corporate Capability and Resources Group with effect from 1 April 2007) is the Board's 'Risk Management Champion'; and
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet identified risks and corporate governance standards;

The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes two non-executive members from the DfT family. Each Agency has its own Audit Committee, which fulfils a similar function. The business of the Harbours Act has not been subject to consideration of any Audit Committee.

Officials consult Ministers regularly on risk. Submissions to Ministers incorporate assessments of key risks, including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

During 2006-2007, the Department's Risk Improvement Manager identified and implemented actions to improve the identification and mitigation of Board level risks through an improved business planning and risk management reporting process. The Department's Risk Improvement Manager is also responsible for ensuring that appropriate guidance, support and training on risk management is available to staff within the central Department. A programme of risk management workshops and other events was delivered which helped embed risk management concepts into every day departmental business and increase staff capacity to manage risks effectively. A number of improvements and additions were made to the Departmental risk guidance, including additional guidance on project risk management and on partnership risk management.

## The risk and control framework

The Treasury published its *Code of Good Practice on Corporate Governance in Central Government Departments* in July 2005; the Department's practices are broadly consistent with the principles set out in this Code.

Director Generals and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department also has in place risk registers, and a corporate risk log, which is reviewed by the Board on a bi-monthly basis.

The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of Agency Chief Executives, Directors General and Directors; and the end of year reporting arrangements. The Framework sets out the responsibilities of Directors General and Directors for risk management. The Framework is supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources.

The Department has put in place a common framework of management assurances to support a more transparent and consistent approach to the review of systems of internal control.

The Department has a number of well-established programmes for involving the public in managing the risks associated with transport. The Department has also identified its ability to manage major transport disruptions as a key corporate risk, and has in place an active programme, working with partners, to ensure that adequate contingency and emergency plans are maintained, developed and reviewed.

## Review of effectiveness

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

The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports regularly to the Board the Committee's views on the effectiveness of internal control.

The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government's *Internal Audit Standard*. It provides an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports are provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment is also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

Director Generals and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which the Finance Director has reviewed and summarised in his report to me on stewardship.

## Group audit opinion

The Group Head of Internal Audit has provided the following opinion for 2006-2007

'My overall opinion on risk management, internal control and governance within the DfT Group is as follows

### Risk management

I can provide substantial assurance that risk management processes are working well in the DfT Group. The Department and the Agencies have continued during the year to improve their risk management arrangements and embed them as part of their decision making and management processes.

### Internal Control

I can provide substantial assurance that internal control processes are working well in the DfT Group. The Department and the Agencies have continued during the year to improve their risk management arrangements and embed them as part of their decision making and management processes.

### Corporate Governance

I can provide substantial assurance that the Department and the Agencies have appropriate structures in place to govern their work. They are largely consistent with Treasury's *Code of Good Practice on Corporate Governance*.

There have been no audit related observations on the business under the Harbours Act.

*Robert Devereux*  
Accounting Officer  
Department for Transport

25 February 2008

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 71 under the Harbours Act 1964. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 70 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Harbours Act 1964 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Harbours Act 1964 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 72 to 74 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Harbours Authority for the year ended 31 March 2007 and the balances held at that date and has been properly prepared in accordance with Section 43(5) of the Harbours Act 1964 and the directions made thereunder by the Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

4 March 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

# Accounts of Loans with Central Government





# Northern Ireland

Advances to the Consolidated Fund of Northern Ireland (Secretary of State for Northern Ireland)

Account presented pursuant to Act 1975, c.83, s.3(1)

## Foreword

### Scope of the Account

- 1 This account prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, for the year ended 31 March 2007 is required to show
  - i the sums issued to the Secretary of State for Northern Ireland out of the National Loans Fund under section 1(8) of the 1975 Act to enable him to make loans under section 1(1) to the Consolidated Fund of Northern Ireland;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on, and repayment of
    - a loans made under the 1975 Act (section 1(7));
    - b loans made under previous enactments (section 2(1));
  - iv the payment into the National Loans Fund of the sums received under (iii).

### The Secretary of State's Powers in respect of loans

- 2 Section 1(1) of the 1975 Act provides that the Secretary of State may, with the approval of the Treasury, advance to the Consolidated Fund of Northern Ireland any sums for the purposes of any expenditure which, in the opinion of the Secretary of State, is of a capital nature. Sums required for making loans are issued by the Treasury to the Secretary of State who is required to determine, with the approval of the Treasury, the repayment terms and conditions and to pay into the National Loans Fund sums received in respect of interest and repayment of principal in respect of loans under this Act and previous enactments.

### Limits on loans outstanding

- 3 Section 1(2) of the 1975 Act as amended by section 1(1) of the Northern Ireland (Loans) Act 1985 specified a maximum of £1,700 million for the aggregate amount outstanding by way of principal in respect of certain loans. The Northern Ireland (Loans) (Increase of Limit) Order 1995 increased the limit in section 1(2) of the 1975 Act by £300 million to £2,000 million. At 31 March 2007 the aggregate amount outstanding was £1,608,283,426 as detailed in the Note to the Account.

### Loans made during the year

- 4 The amounts issued to the Secretary of State out of the National Loans Fund and advanced to the Consolidated Fund of Northern Ireland during the year ended 31 March 2007 was £214,621,000.

The Northern Ireland Public Income and Expenditure Account, published by the Northern Ireland Department of Finance and Personnel, shows the transactions and balances of the Northern Ireland Consolidated Fund.

**Statement of Secretary of State's and Accounting Officer's responsibilities**

Under section 3(1) of the Northern Ireland (Loans) Act 1975 the Secretary of State for Northern Ireland is required to prepare an account for each financial year in the form and manner directed by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at the year end.

The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

*Jonathan Phillips*  
Accounting Officer  
Northern Ireland Office

15 January 2008

## Northern Ireland (Loans) Act 1975

Account, prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, of the Receipts and Payments of the Secretary of State for Northern Ireland under Sections 1(1), 1(7), 1(8), 2(1) and 2(3) of that Act for the year ended 31 March 2007.

### Receipts

	£	Previous year £
Issues from the National Loans Fund (s.1.(8))	<b>214,621,000</b>	162,944,000
<i>From the Consolidated Fund of Northern Ireland</i>		
i Loans under previous enactments (s.2(1))		
Repayment of principal	<b>15,581,811</b>	15,216,290
Interest	<b>6,755,728</b>	7,991,480
ii Loans under the 1975 Act (s.1(7))		
Repayment of principal	<b>94,246,839</b>	84,728,015
Interest	<b>109,065,046</b>	110,293,552
	<b><u>440,270,424</u></b>	<u>381,173,337</u>

### Payments

	£	Previous year £
Loans to the Consolidated Fund of Northern Ireland (s.1(1))	<b>214,621,000</b>	162,944,000
<i>Payments to the National Loans Fund (ss.1(8) and 2(3))</i>		
Repayment of principal	<b>109,828,650</b>	99,944,305
Interest	<b>115,820,774</b>	118,285,032
	<b><u>440,270,424</u></b>	<u>381,173,337</u>

### Note

Under Section 1(2) of the 1975 Act as amended by Section 1(1) of the Northern Ireland (Loans) Act 1985 the aggregate amount outstanding by way of principal of loans to the Consolidated Fund of Northern Ireland under this and previous enactments shall not exceed £1,700 million. The Northern Ireland (Loans) (Increase of Limit) Order 1995 increased the limit in Section 1(2) of the 1975 Act by £300 million to £2,000 million. The amounts outstanding at 31 March 2007 were

Loans under previous enactments	69,993,558
Loans under the 1975 Act	<u>1,538,289,868</u>
	<b>1,608,283,426</b>

The Public Income and Expenditure Account is published separately as a White Paper. See foreword note 4.

# Statement on the System of Internal Control

## The scope of responsibility

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

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in the Northern Ireland Office for the year ended 31 March 2007 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

## Capacity to handle risk

Executive responsibility for risk management within the National Loans Fund rests with me as Accounting Officer. My staff and I have attended and will attend in the future corporate governance and risk management training and seminars to keep me up to date on developments within that sector of management. A risk management strategy has been established and has been communicated to all staff within the National Loans Fund who are trained to manage risks in a way appropriate to their responsibilities and duties.

## The risk and control framework

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes

- the existence of an appropriate control environment, such as clearly defined responsibilities and procedures and evidence of reaction to control failures;
- the preparation and check by middle management of schedules of amounts due for repayment to the National Loans Fund, for Department of Finance and Personnel approval and HM Treasury agreement, prior to payment over; and
- the preparation of six-monthly reports which indicate the level of transactions.

## Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

*Jonathan Phillips*  
Accounting Officer  
Northern Ireland Office

15 January 2008

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2007 under the Northern Ireland (Loans) Act 1975. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparation of financial statements in accordance with the Northern Ireland (Loans) Act 1975 and 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 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 properly present the receipts and payments and are properly prepared in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Foreword is consistent with the Financial Statements. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept, if I have not received all the information and explanations I require for my audit, or if information specified by Treasury is not disclosed.

I review whether the Statement on Internal Control reflects 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 form an opinion on the effectiveness of the Northern Ireland (Loans) Act 1975 corporate governance procedures or its risk and control procedures.

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

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

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

## Opinions

### **Audit opinion**

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Northern Ireland in respect of advances to the Consolidated Fund of Northern Ireland for the year ended 31 March 2007 and the balances held at that date;
- the account has been properly prepared in accordance with the Northern Ireland (Loans) Act 1975 and the directions made thereunder by the Treasury; and
- information given within the Foreword is consistent with the Financial Statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*Tim Burr*  
Comptroller and Auditor General

12 March 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

# Housing Associations Act 1985

Advances to the Housing Corporation

Accounts pursuant to the Housing Associations Act 1985, c.69, s.97(4)

## Management Commentary

### Scope of the Account

- 1 This account is prepared in compliance with Section 97 of the Housing Associations Act 1985 (the 1985 Act) and is required to show
  - i the sums issued to the First Secretary of State out of the National Loans Fund under Section 92(5) of the 1985 Act to enable him to make loans under Section 92(1) to the Housing Corporation;
  - ii the loans so made by the First Secretary of State;
  - iii the sums received by the First Secretary of State under Section 92(4) of the 1985 Act in respect of interest and repayment;
  - iv the payment into the National Loans Fund of the sums received under (iii).
- 2 The principal activities of the Housing Corporation throughout the year were to finance, regulate and facilitate the proper performance of Registered Social Landlords (RSLs) in England. With Central Government finance it provides grants to RSLs for the development of homes for people in housing need. The Corporation has a small portfolio of long term loans which are financed by the borrowings disclosed in the attached account.

### Limits on borrowing

- 3 Under Section 93 of the 1985 Act as amended by Schedule 6 to the Housing Act 1988 and the Housing Corporation Advances (Increase of Limit) Order 1990, the First Secretary of State may make advances up to a limit of £2,300 million.

### Repayment of loans

- 4 The advances must be repaid at such times and by such methods with interest payable at such rates and at such times as the First Secretary of State may, with the approval of the Treasury, from time to time determine.

### Transactions during the year ended 31 March 2007

- 5 A total of £2,800,000 was issued to the First Secretary of State out of the National Loans Fund for advancement to the Housing Corporation.
- 6 The Corporation repaid £2,800,000 in respect of advances made to them. Taking into account advances made in previous years, the outstanding amount of advances to the Housing Corporation at 31 March 2007 was £1,400,000. The Corporation also paid interest totalling £64,154.



**Statement of first Secretary of State's and Accounting Officer's responsibilities**

- 7 Under Section 97 of the Housing Associations Act 1985 the First Secretary of State is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year.
- 8 The Treasury has appointed the Permanent Secretary for the Department for Communities and Local Government (DCLG) as Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Government Accounting* (TSO).

Peter Housden  
Accounting Officer  
Department for Communities and Local Government

4 July 2007

## Housing Associations Act 1985

Receipts and Payments of the First Secretary of State under Section 92 of the Housing Associations Act 1985 for the year ended 31 March 2007

### Receipts

	<b>2006-2007</b>	2005-2006
	£	£
Issues from the National Loans Fund [S.92(5) of the 1985 Act]	<b>2,800,000</b>	2,800,000
<i>Payments by the Housing Corporation</i>		
Repayment on advances	<b>2,800,000</b>	2,800,000
Interest on advances	<b>64,154</b>	66,178
<b>Total receipts</b>	<b><u>5,664,154</u></b>	<u>5,666,178</u>

### Payments

	<b>2006-2007</b>	2005-2006
	£	£
Advances to the Housing Corporation [S.92(1) of the 1985 Act]	<b>2,800,000</b>	2,800,000
<i>Payments to the National Loans Fund</i>		
Repayment of advances	<b>2,800,000</b>	2,800,000
Interest on advances	<b>64,154</b>	66,178
<b>Total payments</b>	<b><u>5,664,154</u></b>	<u>5,666,178</u>
Net movement	<b><u>0</u></b>	<u>0</u>

### Note

The amount of advances outstanding at 1 April 2006 was £1,400,000. The amount of advances outstanding at 31 March 2007 was £1,400,000.

Peter Housden  
Accounting Officer  
Department for Communities and Local Government

4 July 2007

# Statement on Internal Control

## Introduction

This statement is given in respect of the Housing Associations Act 1985, Advances to the Housing Corporation National Loans Funds account and incorporates the transactions that pertain to this account.

## Scope of responsibility

The Housing Corporation is a Non-Departmental Public Body, sponsored by the Department for Communities and Local Government (CLG). The Corporation has a small portfolio of long term loans which are financed by the borrowings disclosed in the attached account. As the Permanent Secretary for CLG, I have been appointed by the Treasury as Accounting Officer for this account.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control which supports the achievement of the CLG's policies, aims and objectives as set by the Department's Ministers and which, prior to the creation of the Department, supported the former Office of the Deputy Prime Minister (ODPM). I have a duty to safeguard the public funds and departmental assets for which I am personally responsible in accordance with the responsibilities assigned to me in Government Accounting.

Ministers set the vision and political direction of the Department's policies within which many calculated risks are taken. My senior managers and I ensure that Ministers are able to take informed decisions on the basis of policy options that have clear statements on implications attached to the various courses of action.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Department's 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 operated since the creation of the new Department for Communities and Local Government on 6 May 2006 and before that date, in ODPM. This statement accords with Treasury guidance.

## Capacity to Handle Risk – Risk and Control Framework

Risk is identified, assessed, managed and reviewed within the Department to ensure the efficient, effective, and economical delivery of the objectives, targets and business.

During 2006-2007 risk processes and assurance were applied as follows

- During the year, Programme Boards reviewed strategic and cross-cutting risks and reported monthly to Ministers and the Board Executive;
- An Audit and Risk Committee, under independent chairmanship of a non executive director of the Board, reviewed the approach to risk management and corporate governance across the Department. The Committee now comprises the non-executive members; and
- Senior managers within the Department reported how they were managing risk through their Statements on Internal Control which were provided to me at the mid-year and at the end of the financial year.

8 Throughout the year, processes were in place to identify, assess and manage risk through various planning and progress monitoring processes: through project and programme management; through policy development and implementation; through audit and in the context of the Comprehensive Spending Review.

In 2007-2008 the system of internal control is being strengthened by establishing a stronger connection between Programme Boards' assessment of risks and the delivery of actions to mitigate those risks and between ministerial option appraisal and decision making, particularly on delivery issues. The Department is also undertaking more rigorous assessment of delivery chains and assurance mechanisms to enable Programme Boards to know if plans are on track in sufficient time to take additional actions where needed.

Making a difference on the ground requires the Department to manage a number of complex and extended delivery arrangements. Partnership working brings clear benefits, though there are risks, particularly around accountability and governance that need to be managed. We are working with the National Audit Office to ensure suitable assurance arrangements are in place.

## Review of effectiveness

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

Mechanisms exist to ensure that the effectiveness of the system of internal control is regularly reviewed

- The Board that includes four Non-Executive Directors meets monthly to consider the plans and strategic direction of the Department, including strategic challenges and opportunities;
- Executive members of the Board meet as the Board Executive to co-ordinate the operations of the Department, oversee organisational development and offer advice to Ministers and the Board on overall strategy;
- The Audit and Risk Committee considers the adequacy of the internal control system and the risk management framework. In 2006-2007, the Audit and Risk Committee agreed the Departmental approach to risk, the internal audit programme and sought assurance from senior managers on key audit issues. I attend meetings of the Committee as Accounting Officer;
- The Investment Board ensures that new programmes and major projects receive early, rigorous and consistent scrutiny, that approved projects have corporate support and appropriate cross Department engagement and that the Department's appraisal systems are consistent and of high quality. The Investment Board is chaired by the Director General, Finance and Corporate Service Delivery and comprises a Non-Executive Board Director and senior officials of the Department and its arm's length bodies;
- The effectiveness of the Department's risk management, control and governance processes is kept under regular review by the Department's Internal Audit Service (IAS). Regular reports are made to the Audit and Risk Committee. IAS operates to Government Internal Audit Standards;
- My senior managers provide me with a statement every six months on the effectiveness of their internal control and risk management arrangements; and
- In 2007-2008 I have established, as sub committees of the Board, the Contingencies Planning Committee and the Delivery Sub Committee.

There are no significant internal control problems to report.

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 87 under the Housing Associations Act 1985. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Secretary of State, Accounting Officer and Auditor

As described on page 86 the First Secretary of State is responsible for the preparation of the financial statements in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder. The Accounting Officer is responsible for ensuring the regularity of financial transactions and for the preparation of the Management Commentary.

My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Management Commentary is not consistent with the financial statements, if proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 88 to 89 reflects compliance with Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control 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 Management Commentary and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures, and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements.

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

## Opinion

In my opinion

- the financial statements properly present, in accordance with the Housing Associations Act 1985 and directions made thereunder by the HM Treasury, the receipts and payments for the year ended 31 March 2007 and the balances held at that date;
- the financial statements have been properly prepared in accordance with the Housing Associations Act 1985 and directions made thereunder by HM Treasury; and
- information given in the Management Commentary is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

4 July 2007

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ISBN 978-0-10-328803-1



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