

Cabinet Office Annual Report and Resource Accounts 2005-06

Presented pursuant to the Government Resources and Accounts Act 2000, Chapter 20, Section 6 (4).

Cabinet Office Annual Report and Resource Accounts 2005-06

(For the year ended 31 March 2006)

**Presented to Parliament by the
Financial Secretary to the Treasury
by Command of Her Majesty**

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Annual Report

Overview

The Cabinet Office Resource Accounts incorporate entities within the departmental boundary, including the Prime Minister's Office.

Machinery of government changes during the year involved the transfer out from the Cabinet Office of the Government Car and Despatch Agency to the Department for Transport, the Government Social Research Unit to HM Treasury and the Office of the Chief Whip of the House of Lords and the Office of the Chief Whip of the House of Commons to the Privy Council Office.

Also, the Government News Network moved to the Central Office of Information.

During 2005-06, there were changes to the Department's leadership. In May 2005 the Rt Hon John Hutton MP succeeded the Rt Hon David Miliband MP as Minister for the Cabinet Office and was also appointed Chancellor of the Duchy of Lancaster. In November 2005 the Rt Hon John Hutton MP became Secretary of State for Works and Pensions and, until the Rt Hon Hilary Armstrong MP was appointed Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office in May 2006, the Cabinet Office was led by Jim Murphy MP who had been appointed Parliamentary Secretary in May 2005.

Ministers

The ministers with responsibility for the Cabinet Office during the year were:

The Rt Hon Alan MILBURN MP

Chancellor of the Duchy of Lancaster
until 6 May 2005

The Rt Hon John HUTTON MP

Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office
from 7 May 2005
until 2 November 2005

The Rt Hon David MILIBAND MP

Minister for the Cabinet Office
until 6 May 2005

Jim MURPHY MP

Parliamentary Secretary
from 10 May 2005

The Rt Hon Ian McCARTNEY MP

Minister without Portfolio and Labour Party Chair
not remunerated

On 8 May 2006:

The Rt Hon Hilary Armstrong MP was appointed as Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office.

Pat McFadden MP was appointed as Parliamentary Secretary, replacing Jim Murphy MP who moved to take up the appointment of Minister of State at the Department for Work and Pensions.

Ed Miliband MP was appointed as Minister for the Third Sector.

The Rt Hon Hazel Blears MP was appointed as Minister without Portfolio and Labour Party Chair, replacing The Rt Hon Ian McCartney MP who moved to take up the appointment of Trade Minister for the Foreign and Commonwealth Office and the Department of Trade and Industry.

Secretary of the Cabinet

The post of Secretary of the Cabinet was held during the year by:

Sir Andrew TURNBULL KCB CVO	Secretary of the Cabinet and Head of the Home Civil Service <i>until 29 July 2005</i>
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Sir Gus O'DONNELL KCB	Secretary of the Cabinet and Head of the Home Civil Service <i>from 1 August 2005</i>
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Cabinet Office Strategy Board/Cabinet Office Board

The Cabinet Office Strategy Board was replaced by the Cabinet Office Board on 8 November 2005. Members of both Boards follow.

Cabinet Office Strategy Board

The role of the Cabinet Office Strategy Board was to give corporate strategic leadership to the Department.

Members of the Strategy Board were appointed by the Minister for the Cabinet Office to assist in the strategic leadership of the Department.

The Members of the Strategy Board during the year were:

Chair

The Rt Hon David MILIBAND MP	Minister for the Cabinet Office <i>until 6 May 2005</i>
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The Rt Hon John HUTTON MP	Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office <i>from 7 May 2005</i> <i>until 2 November 2005</i>
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Internal Membership

Jim MURPHY MP	Parliamentary Secretary <i>from 10 May 2005</i>
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Sir Andrew TURNBULL KCB CVO	Secretary of the Cabinet and Head of the Home Civil Service <i>until 29 July 2005</i>
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Colin BALMER CB	Managing Director and Permanent Head of the Department
Paul BRITTON CB	Head, Economic and Domestic Affairs Secretariat
Bill JEFFREY CB	Security and Intelligence Co-ordinator <i>from 18 April 2005</i>
Sir David OMAND GCB	Security and Intelligence Co-ordinator <i>until 15 April 2005</i>
Ivan ROGERS	Principal Private Secretary to the Prime Minister

External Membership

Millie BANERJEE CBE	Non-Executive Chair, Cabinet Office Audit and Risk Committee
The Lord BIRT	Unpaid strategy adviser to the Prime Minister <i>not remunerated</i>
Sir Gus O'DONNELL KCB	Permanent Secretary, HM Treasury <i>until 31 July 2005</i> <i>not remunerated</i>

Cabinet Office Board (from 8 November 2005)

The role of the Cabinet Office Board is to steer and manage the business of the Department, in accordance with Ministerial priorities.

The Board's key responsibilities are to:

- recommend a business plan and resource allocation, and strategy for achieving the Department's business objectives to ministers;
- monitor and improve the Department's performance against these;
- ensure that risks are identified and effectively managed;
- oversee the Better Cabinet Office programme;
- ensure that standards and values within the Cabinet Office support the aims of the Department, and good government more generally; and
- safeguard and enhance the Department's standards and values.

Members of the Board have been appointed by Sir Gus O'Donnell to provide strong leadership to the Department and help support the ongoing programme to achieve a better Cabinet Office.

The Members of the Board during the year were:

Chair

Sir Gus O'DONNELL KCB	Secretary of the Cabinet and Head of the Home Civil Service
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Executive Membership

Colin BALMER CB	Managing Director and Permanent Head of the Department <i>until 28 February 2006</i>
Paul BRITTON CB	Head, Economic and Domestic Affairs Secretariat
Kim DARROCH CMG	Head, European Secretariat and the Prime Minister's European Adviser
Howell JAMES CBE	Permanent Secretary, Government Communications
Bill JEFFREY CB	Security and Intelligence Co-ordinator <i>until 11 November 2005</i>
Anne-Marie LAWLOR	Director, Leadership and Development Strategy
Sir Richard MOTTRAM GCB	Security and Intelligence Co-ordinator <i>from 14 November 2005</i>
Jerry PAGE	Finance Director
Ivan ROGERS	Principal Private Secretary to the Prime Minister
William SARGENT	Executive Chair, Better Regulation Executive
Ian WATMORE	Permanent Secretary, Prime Minister's Delivery Unit
Liz WOODSON	Change and Operations Director <i>from 12 December 2005</i>

Independent Non-Executive Membership

Millie BANERJEE CBE	Non-Executive Chair, Cabinet Office Audit and Risk Committee <i>until 31 December 2005</i>
Alex ALLAN	Permanent Secretary, Department for Constitutional Affairs <i>not remunerated</i>
Mary KEEGAN	Managing Director, Government Financial Management, HM Treasury <i>not remunerated</i>
John OUGHTON	Chief Executive, Office of Government Commerce <i>not remunerated</i>

Permanent Secretaries

Other Permanent Secretary posts were held during the year by:

Sir Geoffrey BOWMAN KCB	First Parliamentary Counsel
Sir Nigel SHEINWALD KCMG	Head, Overseas and Defence Secretariat and the Prime Minister's Foreign Policy Adviser

Public Interest

The Cabinet Office maintains a Register of Interests with details of company directorship and other significant interests held by Board members. Copies of the register are available on request.

Pensions

Present and past employees of the Cabinet Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The financial status of the scheme is reported in a separate PCSPS scheme statement. The accounting policy adopted for pension costs is set out at note 1.12 to the accounts. Details of senior staff pension entitlements are set out in the Remuneration report.

Diversity and Equal Opportunities Policy

The Cabinet Office is an Equal Opportunities employer and is committed to providing equal opportunities for all, irrespective of age, disability, ethnicity, gender, gender identity, religion or belief, sexual orientation, working pattern or trade union membership.

The Cabinet Office will not tolerate any form of unfair discriminatory behaviour, harassment, bullying or victimisation by units, teams, managers or individuals.

The Cabinet Office's policies and practices reflect the Civil Service Management Code and relevant UK legislation, including legislation implementing European Union Directives.

Employee Consultation

The Cabinet Office recognises the importance of good employee relations to the achievement of its objectives and consultation with employees and their representatives is key to this.

Regular communication and consultation takes place with staff through a variety of media including intranet, weekly staff newsletter and team briefing meetings. Larger consultation exercises take place on important developments. The Department has a partnership agreement with the trade unions. In addition, senior managers meet with the trade union representatives twice a year under the Departmental Whitley Council arrangements.

There are diversity networks which represent particular groups of staff including women, staff with disabilities, ethnic minority staff, lesbian, gay and bisexual staff, carers and staff with part-time/alternative working patterns. The Department actively supports and consults these networks on particular diversity and equality-related issues.

The average number of whole-time equivalent disabled persons employed during the year was 59 (2004-05: 55).

Policy on Payment of Suppliers

The Cabinet Office is committed to the Better Payment Practice Code on prompt payment and aims to pay all undisputed invoices within the terms of the contract, usually 30 days of receipt of a valid invoice. During the year the Department paid 94.16% of invoices within 30 days (2004-05: 97.29%). The Department paid £nil (2004-05: £27.45) interest charges levied on late payment of invoices for the year ended 31 March 2006.

Basis of Accounts

The Cabinet Office Resource Accounts have been prepared on a statutory basis in accordance with the requirements of HM Treasury and are designed to comply with generic Accounts Directions issued to departments by HM Treasury under section 5 (2) of the Government Resources and Accounts Act 2000.

Auditors

The financial statements are audited by the Comptroller and Auditor General, who is appointed under statute and reports to Parliament on the audit examination. Auditors' remuneration and expenses are disclosed at note 10 to the accounts.

Management Commentary

Departmental Reporting Cycle

Performance against Departmental aims, objectives and targets is formally reported in the Departmental Report, Autumn Performance Report and in this Management Commentary.

The annual Spring Departmental Report covers expenditure, performance against the Department's Public Service Agreement (PSA) targets and describes other activities in support of the Department's new objectives. It also includes information relating to a number of units and organisations that are attached to the Department. The latest Departmental Report (Cm 6833) was published in May 2006.

The Department also publishes an annual Autumn Performance Report, which provides an update on progress against PSA targets since the preceding Spring Departmental Report. The PSA technical notes contained in the Autumn Performance Report provides details of how progress against the targets is measured. The latest Autumn Performance Report (Cm 6725) was published in December 2005.

Current and previous Departmental Reports and Autumn Performance Reports can be found on the Cabinet Office internet site: www.cabinetoffice.gov.uk/publications.

The Cabinet Office Main Estimate for 2005-06 was published in May 2005 as part of the Central Government Supply Estimates 2005-06 Main Supply Estimates (HC 2). The Department also applied for Winter and Spring Supplementary Estimates, details of which are available in the Central Government Supply Estimates 2005-06 Winter Supplementary Estimates (HC 672) and the Central Government Supply Estimates 2005-06 Spring Supplementary Estimates (HC 827).

Current and previous estimates can be found on the HM Treasury website: www.hm-treasury.gov.uk/documents/public_spending_and_services/parliamentary_supply_estimates/.

Departmental Aims and Objectives

The Cabinet Office's aim is to **make Government more effective by providing a strong Centre**.

The Department's objectives for the period of this report were to:

- support the Prime Minister in **leading** the Government;
- achieve **co-ordination** of policy and operations across government;
- improve delivery by **building capacity** in departments and the public services; and
- **promote standards** that ensure good governance, including adherence to the Ministerial and Civil Service Codes.

The Spring Departmental Report announced three new objectives for the Cabinet Office from 2006-07. They are:

- **supporting the Prime Minister** – to define and deliver the Government's objectives;
- **supporting the Cabinet** – to drive the coherence, quality and delivery of policy and operations across departments; and
- **strengthening the Civil Service** – to ensure the Civil Service is organised effectively and has the capability in terms of skills, values and leadership to deliver the Government's objectives.

For further information please see the Cabinet Office Departmental Report 2006 at: <http://www.cabinetoffice.gov.uk/reports/annualreport/dept2006>.

The Cabinet Office's Public Service Agreement (PSA) targets, agreed as part of the 2002 and 2004 Spending Reviews (SR2002 and SR2004) contribute to the achievement of the Department's objectives.

The 2006 Departmental Report (Cm6833) covers in detail the work of the Cabinet Office and provides a thorough assessment of the Department's performance against its PSA targets.

For the purposes of this report, the earlier aims and objectives will be reported upon. The remainder of this section details significant features of the Cabinet Office's performance in 2005-06 against those four departmental objectives.

Supporting the Prime Minister in leading the Government

The **Prime Minister's Office**, No 10, works with the Cabinet Office to provide central direction for the development, implementation and presentation of government policy. No 10 is staffed by a mixture of civil servants and special advisers and is headed by a Chief of Staff.

During 2005-06, No 10 continued to drive forward the Government's programme of reform in the public services. On the international side, No 10 pushed forward the Government's foreign policy to rebuild Iraq, foster peace in the Middle East and Afghanistan, tackle terrorism, and deliver successful EU and G8 Presidencies. The latter saw important steps forward on support for Africa and climate change.

The **Ceremonial Secretariat** supports the Prime Minister in the preparation of his honours lists and deals with honours and medals policy. Its aim is to produce timely recommendations for honours and awards that are regarded as fair and representative, reflecting the Government's priorities and public inputs. It does this through a series of specialist assessment committees which advise the Cabinet Secretary, who puts forward recommendations to the Prime Minister. As well as operating the Prime Minister's Honours List, the Secretariat's objectives include providing a high quality public nomination service and promoting the recognition of acts of gallantry in the United Kingdom.

Following the reviews of the honours system by the public administration select committee and by Sir Hayden Phillips, a new structure of honours committees supporting the Cabinet Secretary has been established. Expert chairs and members were recruited to the eight committees using "Nolan" principles. The chairs and members from outside government form the majority. The full membership of all the committees has been published. The new committees advised on the candidates for inclusion in the New Year's Honours List 2006.

Achieve co-ordination of policy and operations across government

The **Intelligence and Security Secretariat** ensures that the Prime Minister and other senior Ministers are well served on a variety of cross-government Security and Intelligence Issues. It has five main aims.

They are to:

- ensure that the Government's foreign, defence and security policy decisions are usefully informed by timely, accurate and objectively assessed intelligence;
- support the Security and Intelligence Co-ordinator, Permanent Secretaries, the Joint Intelligence Committee (JIC) and Official Committee on Security in their roles of coordinating security and intelligence policy and funding;
- oversee and co-ordinate analytical capabilities, methodology and training in the security, defence and foreign affairs fields;
- direct delivery of the SCOPE Programme and the associated SCOPE shared intelligence service that will transform the way secret intelligence is used across government by making it available fast, flexibly and securely to all those who need it. It will enable collaborative working practices

within the intelligence community, including team working with users of intelligence. There will be an increased impact on policy making and operational work; and

- provide strategic leadership and co-ordination of Government's Information Assurance activity, with the aim of providing assurance to Government that the risks to information systems of key public interest are appropriately managed.

The **Civil Contingencies Secretariat** (CCS) was established in July 2001. Since then, it has worked to improve the UK's preparedness for and response to emergencies. CCS aims to ensure that the UK and its communities remain a safe and secure place to live and work, by effectively identifying and managing the risk of emergencies, and maintaining world-class capabilities to respond to and recover from emergencies.

In this work, CCS directly supports the Home Secretary who chairs the relevant Cabinet Ministerial committee which oversees work to build the UK's resilience; and the Civil Contingencies Committee, which would oversee the Government's response to a major emergency. The CCS also supports the Secretary of State for Health who chairs the Cabinet Ministerial committee overseeing cross-government contingency planning for a flu pandemic.

CCS has the following objectives:

- spotting trouble, assessing its nature and providing warning – this objective covers the measures needed to ensure that, working with departments and a wide range of other organisations, the UK is able to detect, assess and warn of trouble and thus facilitate the provision of the most effective response, drawing on lessons from past experience;
- being ready to respond – this objective covers the preparedness of all of those agencies who might have a role to play in the response to a major disruptive challenge. As well as ensuring that we ourselves are ready, it is also about tracking the preparedness of organisations at national, regional and local levels, in the public sector and outside;
- building greater resilience for the future – this objective covers action at all levels, from local to international, to build stronger resilience capabilities. It thus covers the processes led by the CCS to drive the delivery of enhanced resilience capabilities. It also covers international work through which we can build mutual resilience; and
- providing leadership and guidance to the resilience community – CCS aim to tell those involved in delivering and building resilience across the UK what the Government seeks to do, where it is trying to get to, how it will get there and how those involved will know that they have succeeded, thus building consistency and coherence in the work of all involved across the UK in delivering enhanced resilience.

The **Defence and Overseas Secretariat** has supported the Prime Minister and Cabinet in defining and driving forward government policy on a range of foreign policy, development, defence and security issues including Iraq, Afghanistan, counter-terrorism and counter-proliferation. It co-ordinated the decision-making process that underpinned the deployment of British Armed Forces and civilians to Afghanistan.

It supported the Prime Minister in his role as President of the G8 and his external visits during the EU Presidency. It continued its work to maintain and upgrade the Government's crisis management facilities, including the activation of Cabinet Office Briefing Rooms (COBR) following the bomb attacks in London on 7 July and the attempted attacks on 21 July.

The **Economic and Domestic Secretariat** (EDS) has helped to secure cross-government agreement and coordinated policy on a wide range of subjects, for example, identity cards, asylum and immigration, older people, science and innovation, development of the Thames Gateway, the 2012 Olympic Bid, waste and recycling issues, energy issues, employment issues, emissions trading, measures to limit council tax rises and the Government's response to the Office of Fair Trading's market study on taxis. EDS has also contributed to policy development around service delivery, by working closely with the Treasury to deliver policy on the inspection of public services. EDS also played a significant role in

the 2004 Spending Review through its support of the Ministerial Committee on Public Services and Public Expenditure.

The **European Secretariat** is headed by the Prime Minister's policy adviser on the European Union (EU). It supports the Prime Minister in leading the Government's European policy, and co-ordinates European policy and operations across government. The Secretariat also helps departments deliver better regulation and tackle unnecessary bureaucracy in Europe.

The Secretariat advises the Prime Minister on European issues, providing support for him in his dealings with other Heads of Government on EU matters. The Secretariat ensures that the Prime Minister's decisions on European policy are implemented, usually via other government departments, and in particular through the UK Representation to the EU. The Secretariat also has a direct role in influencing European negotiations through its own contacts with other governments, in particular other Prime Ministers' offices, through contacts with Members of the European Parliament, interested groups and individuals in the United Kingdom.

The Secretariat ensures that the UK's position on European issues is consistent and coherent and that Ministers are informed of departments' views. It also ensures that they are given advice in good time, and that their decisions are carried out effectively by everyone in Whitehall and UK representatives abroad.

In the early part of the period of this report, much of the Secretariat's work focused on leading and coordinating the work across government in the final preparations for the UK's Presidency of the EU between July and December. This included agreeing the key policy priorities for the Presidency and in the management of the Presidency from July-December.

A key achievement of the Presidency, which was reached during the European Council meeting in December, was an agreement on a new EU Budget for the period 2007-13. Following on from, that the Secretariat is supporting Ministers in preparing the groundwork for the UK's objectives for a fundamental review of EU financing and policies which will begin in 2008.

The role of the **Government Communication Group (GCG)** is to modernise government communication by ensuring that it responds to the opportunities and challenges of the modern media environment (including new ways of reaching and engaging the public), while retaining a tight grip on news management and upholding the highest standards of propriety. To drive this agenda across government the GCG has three main work streams:

- strategic communication and marketing – providing advice on cross-departmental issues and on Prime Ministerial and other key communication priorities;
- professional development – using the Government Communication Network to equip government communicators with the latest professional knowledge and to improve skill levels; and
- professional standards – driving improvements across departments and upholding standards of propriety which govern communication activity.

GCG also includes the Media Monitoring Unit (MMU). The MMU provides a round-the-clock media monitoring service to departments; it recovers its costs from them. The Customer Focus team from the former Office of Public Services Reform (OPSR) joined GCG in January 2006. It focuses on the Charter Mark programme and the measurement of customer satisfaction. GCG is headed by the Permanent Secretary, Government Communication.

Improve delivery by building capacity in departments and the public services

The **Prime Minister's Delivery Unit (PMDU)** aims to help Government to deliver improved public services, achieve key published targets, and implement under-pinning system reform.

The PMDU does this by:

- monitoring and reporting on delivery of the Prime Minister's top delivery priorities;

- identifying the key barriers to improvement and the action needed to strengthen delivery;
- strengthening departments' capacity to deliver, through capability reviews and sharing knowledge about best practice in delivery; and
- supporting the development of high quality PSA targets that will effectively incentivise improvements in public services.

The key features of PMDU's work are:

- strong partnership with departments to ensure a shared understanding of issues and a shared commitment to action;
- strong engagement with people at all levels in the delivery system to understand the impact of existing policy and the benefits and risks of proposed action;
- impartial, external challenge to departments on delivery planning and implementation; and
- high quality data to monitor progress against trajectory and identify the impact of key policy elements.

The Prime Minister's **Strategy Unit** has three main roles:

- to carry out strategy reviews and provide policy advice in accordance with the Prime Minister's policy priorities;
- to support departments in developing effective strategies and policies – including helping them to build their strategic capability; and
- to identify and effectively disseminate thinking on emerging issues and challenges e.g. through occasional strategic audits.

The Unit has also recently taken over responsibility for OPSR's cross-cutting public service reform work.

The outputs of the Unit are varied, ranging from pieces of analysis and policy advice that may take 1 to 2 months, to strategy and policy reviews that may take 4 or 5 months or longer. Some of the Unit's work takes the form of confidential advice to Ministers including the Prime Minister. But most of the Unit's work is done collaboratively or jointly with other departments and/or external stakeholders and most of it is ultimately published in some form. While some of its work is one-off, other work on issues such as public service reform and home affairs tends to be ongoing.

The key role of the **e-Government Unit** (e-GU) is to lead the implementation and further development of the Transformational Government strategy (Cm 6683) and its vision of customer-focused services to citizens and businesses, of a shared service basis of delivery and of professionalism throughout the delivery chain.

In doing so, e-GU support the business transformation of government so that it can provide better, more efficient public services to citizens.

As part of its overall role, e-GU will also deliver key common infrastructure and services for government and provide ICT support to the Cabinet Office's own business and transformation.

Corporate Development Group serves as the corporate group HR function for the Civil Service. It comprises three key areas: Leadership and Development strategy, HR transformation and Employment & Reward. The Leadership and Development Strategy Directorate works with the senior leadership of the Civil Service to develop strategies to improve the skills and leadership of the whole Civil Service. Key achievements over the past year include the roll-out of Professional Skills for Government, a programme to give staff in all areas of the Civil Service the skills and experience necessary to ensure end to end delivery, and the launch of Government Skills, the new Sector Skills Council for Central Government. The second cohort for the High Potential Development Programme was selected, helping to bring on quickly those with the potential to reach the very top of the Civil

Service, and programmes to develop the people at the most senior levels of the service also bedded down.

The **Better Regulation Executive (BRE)** works closely with other government departments, agencies and regulators to drive through the better regulation agenda, which aims to deliver higher productivity and increased competitiveness for business, more efficient public services that are well delivered and value for money and a better regulatory environment for charities and the voluntary sector. Better regulation frees up time, money and manpower and allows organisations to concentrate on their core business, be it making money or improving services.

The formation of the Better Regulation Executive (BRE) was announced in the 2005 Budget. The BRE has continued the work of the Regulatory Impact Unit (RIU) and has taken the lead in driving the implementation of the Better Regulation Task Force's (BRTF) report, "Regulation – Less is More", as well as the Philip Hampton's Review of regulatory enforcement and inspection. The BRE also has joint responsibility, with the Treasury, for the major programme of reforms to improve the inspection of public services, in line with the Government policy announced in 2003.

Promote standards that ensure good governance, including adherence to the Ministerial and Civil Service Codes

The **Propriety and Ethics Team** is responsible for providing advice to Ministers and civil servants about issues arising under the Ministerial Code, Civil Service Code and Code of Conduct for Special Advisers. The Team also acts as a central source of advice and best practice on issues relating to Public Inquiries.

The Team is also responsible for maintaining an effective working relationship between government and the Committee on Standards in Public Life, including advising the Prime Minister on its work, and between Government and the Parliamentary Commissioner for Administration (the Parliamentary Ombudsman). The Team also acts as the liaison point between the Department and the Public Administration Select Committee.

The **Office of Public Sector Information (OPSI)** is at the heart of information policy in the UK, disseminating legislation and other official information, setting standards, providing advice and sharing best practice. In taking this lead, OPSI makes an essential contribution to the development of the UK as a knowledge economy and as an information society.

OPSI's aim is to make public sector information easy to find, use, share, trade and re-use through the provision of expert advice and guidance, setting standards in official publishing and licensing and through a unique range of online services direct to the public at: www.opsi.gov.uk.

OPSI sets and measures the standards for compliance with the Public Sector Information (PSI) Regulations through an enhanced Information Fair Trader Scheme; by co-ordinating the work of the Advisory Panel on Public Sector Information; a formal disputes resolution process under the regulations and sharing best practice on how public sector organisations can comply with the PSI Regulations.

OPSI ensures the delivery of cost-effective publishing and printing services to fulfil Her Majesty's Stationery Office's statutory obligations and the needs of Government and facilitates UK wide access to public sector information through Public Access Schemes.

Advisory Non-Departmental Public Bodies

The Cabinet Office sponsors a number of bodies that have links to the Department but whose work does not contribute directly to the achievement of the Department's objectives and whose funding arrangements are separate. See note 36.

Sustainability Report

The Cabinet Office is committed to integrating sustainable development into its policies, estate management operational activities and as an employer.

The Cabinet Office's first Sustainable Development Action Plan is being developed to demonstrate how the Cabinet Office will continue to support, contribute and deliver the commitments and objectives within the UK sustainable development strategy, "Securing the Future". The Action Plan will build on past successes and highlight what we will do to continually improve our performance.

The Cabinet Office's Environmental Policy is available on the Cabinet Office's website at: <http://www.cabinetoffice.gov.uk/reports/environment/index.asp>.

Financial Review

The majority of the Cabinet Office's funding is provided by Parliament, and the Department is accountable to Parliament for all its expenditure. Financial statement of operating cost by departmental aim and objectives within the Resource Accounts provides information about the resource outturn for each departmental objective listed above.

The Cabinet Office is committed to achieving the planned efficiency savings and workforce reductions determined as part of SR04. Targets have been published in an Efficiency Technical Note and this will be further updated later this year to reflect the changes being planned to make the Cabinet Office more strategic. The Department has an Efficiency Programme Board that monitors progress and this is reported to HM Treasury. Information on progress to date can be found in the 2006 Departmental Report.

Performance against Parliamentary Control totals

Authority was sought in the Spring Supplementary Supply Estimate (HC 827) for a net resource requirement of £223.1 million, a net voted capital requirement of £23.9 million and a net cash requirement of £200.4 million. Final Outturn for 2005-06 recorded savings of £5.9 million against net resource, savings of £5.8 million against net voted capital and savings of £30.3 million against net cash requirement – see Figure 1 below and notes 2 and 4 to the accounts.

Net Resource

The Cabinet Office's actual net resource requirement in 2005-06 was £217.2 million; £5.9 million less than the net resource requirement and £5.8 million less than the Resource Departmental Expenditure Limit approved by Parliament.

The net resource requirement was adjusted down by £0.1 million to reflect the transfer of resource budget from the Cabinet Office to other government departments but under HM Treasury Supplementary Estimate rules it is not possible to reduce the net resource requirement itself.

The under-spend against Resource Departmental Expenditure Limit is largely attributable to the lower than forecast depreciation charges relating to the SCOPE cross-departmental information strategy and income received by the National School of Government. The following explanations are given at Note 2.

Cabinet Office

Savings include £3.3 million under-spend on depreciation charges by SCOPE cross-departmental information strategy whose capital expenditure has been re-scheduled due to an extended pre-contract risk reduction phase and this in turn has led to lower than expected depreciation charges.

National School of Government

In July 2005 the Civil Service Management Board agreed that in order for the National School of Government to develop capacity in the longer term, the stakeholder departments should provide around £4,175k of funding. In the event, the National School did not spend all of this funding in 2005-06 leading to a surplus against the Estimate. The unused funding will be available for use by the National School in 2006-07.

Emergency Planning Grants

Administration of civil defence grants has passed to the Department for Communities and Local Government and Wales Office, except for a grant of £606k to the London Fire Emergency Planning Authority. Excess expenditure of £767k relates to an accrual for late claims still due from Local Authorities in respect of civil defence grants for prior years.

Net Voted Capital

The Cabinet Office's capital investment in 2005-06 amounted to £18.1 million; £5.8 million less than the net voted capital requirement and £5.2 million less than the Capital Departmental Expenditure Limit approved by Parliament.

The net voted capital requirement was adjusted down by £0.6 million to reflect the transfer of capital budget from the Cabinet Office to other government departments but under HM Treasury Supplementary Estimate rules it is not possible to reduce the net voted capital requirement itself.

The under-spend against Capital Departmental Expenditure Limit is largely attributable to SCOPE cross-departmental information strategy capital expenditure being re-scheduled due to an extended pre-contract risk reduction phase.

Net Cash Requirement

The Cabinet Office required cash in 2005-06 amounting to £170.1 million to finance its activities; £30.3 million less than the sum approved by Parliament owing to reduced spend on IT-related capital projects as described above, a decrease in trade debtors and an increase in trade creditors mainly relating to the business of the e-Government unit.

Figure 1

	Estimate	Outturn	Variance Saving/ (Excess)
	£ million	£ million	£ million
Resource Departmental Expenditure Limit – RDEL	223.0	217.2	5.8
Transfers to other government departments	0.1	–	0.1
Net Resource	223.1	217.2	5.9
Capital Departmental Expenditure Limit – CDEL	23.3	18.1	5.2
Transfers to other government departments	0.6	-	0.6
Net Voted Capital	23.9	18.1	5.8
Accruals Adjustments	(46.6)	(65.2)	18.6
Net Cash Requirement	200.4	170.1	30.3

Events after the Balance Sheet Date

On 1 April 2006, DirectGov completed the first phase of the move from the e-Government unit to the Central Office of Information with nearly all staff moving to Central Office of Information control. The move is part of the ongoing programme to ensure effectiveness and efficiency from the Cabinet Office, ensuring functions are placed where they will best serve the public. As part of the phase two move, DirectGov will physically move out of Cabinet Office buildings to Central Office of Information offices. However, the Cabinet Office will continue to be responsible for oversight and management of DirectGov funding until such time a new arrangement is agreed with the Central Office of Information; the future funding mechanism for DirectGov will need to be agreed before the Central Office of Information takes full responsibility. DirectGov income is primarily derived from charging other government departments for its services. 2005-06 income was £11.5 million, expenditure £15 million and headcount for permanent staff was 20. DirectGov is the Government's primary digital service for citizens. It brings together advice, online applications and information in one place, through a variety of channels.

The Media Monitoring Unit transferred out of the Cabinet Office to the Central Office of Information on 1 April 2006. The move is part of the ongoing programme to ensure effectiveness and efficiency from the Cabinet Office by ensuring functions are best placed where they serve the public. Media Monitoring income is primarily derived from charging other government departments for its services. Income in 2005-06 was £1 million. The Media Monitoring Unit is a resource providing 24-hour monitoring of print, broadcast and electronic media for government departments and agencies.

Jim Murphy MP, Parliamentary Secretary, announced to Parliament on 30 March 2006 the intention to establish the National School of Government as a separate non-ministerial department. This will allow the National School of Government to have more autonomy to develop its role as a centre of excellence for learning and development across the public sector. Arrangements are being made to bring about this change. National School of Government income is derived from charging other government departments for its services and expected income for 2006-07 is £31 million.

As a result of the Prime Minister's reshuffle on 6 May 2006, the Cabinet Office was given a new area of responsibility – the Third Sector. The Third sector comprises non-governmental organisations which are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, faith groups, social enterprises, cooperatives and mutuals. A new Office of the Third Sector will be part of the Cabinet Office and run by staff from the Active Communities Directorate in the Home Office and the Social Enterprise Unit in the Department of Trade and Industry. Staff from these units will be transferred to the Cabinet Office to run the office and a new Head of the Office of the Third Sector at Director General level will soon be advertised for. As part of the same reshuffle, the Social Exclusion Taskforce of the Department for Communities and Local Government is also transferring to the Cabinet Office. As part of the same reshuffle, a new Social Exclusion Task Force is being established in the Cabinet Office to support Hilary Armstrong and Pat McFadden. Some members of the Social Exclusion Unit in the Department for Communities and Local Government will be transferring to the new Task Force. The functions of the new Task Force will include delivering a Social Exclusion Action Plan to be published in the autumn; developing future strategy and policy on social exclusion; and helping to mobilise stakeholders across government and across the public, private and voluntary sectors in support of the Plan. The financial impact of both is being assessed.

Hilary Armstrong MP, Chancellor of the Duchy of Lancaster, announced to Parliament on 21 June 2006 the transfer out of the Office of Public Sector Information which is to merge with the National Archives under the joint name of the National Archives. This merger will take effect in October 2006 and aims to create a stronger centre for information management in the public sector. Net expenditure for 2006-07 based on 2005-06 results is expected to be approximately £2 million.

See note 37.

Remuneration Report

Remuneration of Ministers and the Cabinet Office Strategy Board/Cabinet Office Board

Remuneration Policy

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

The pay and performance management systems are similar and common across all government departments. Pay awards are in two parts: base pay progression (performance based on a relative assessment three tranche approach against individual objectives and Cabinet Office key competencies) and non-consolidated bonuses to reward high performance. The size of awards are based on recommendations from the Review Body on Senior Salaries and in 2005-06 bonuses paid to senior civil servants in the Cabinet Office ranged from £2,500 to £17,500.

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

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

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

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

Further information about the work of the Review Body can be found at: www.ome.uk.com.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. In accordance with the Civil Service Management Code, notice for compulsory termination of employment is six months. Notice for resignation at senior civil service level is three months.

Salary and pension entitlements

The following sections provide details of the remuneration and pensions interests of the Ministers and most senior officials of the Department.

A. Remuneration:**Ministers**

Ministers	2005-06		2004-05	
	Salary £	Benefits in kind (to nearest £100)	Salary £	Benefits in kind (to nearest £100)
The RT Hon Alan Milburn MP* (to 6 May 2005)	7,450 (74,902 full year equivalent)	-	40,844 (72,862 full year equivalent)	-
The RT Hon John Hutton MP (from 7 May 2005 to 2 November 2005)	33,525 (74,902 full year equivalent)	-	-	-
The RT Hon David Miliband MP (to 6 May 2005)	3,455 (38,854 full year equivalent)	-	9,449 (37,796 full year equivalent)	-
Jim Murphy MP (from 10 May 2005)	26,399 (29,491 full year equivalent)	-	-	-

*The Rt Hon Alan Milburn MP received compensation under the Ministerial and other Pensions and Salaries Act 1991.

Senior management

Senior Management	2005-06		2004-05 Restated	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Sir Andrew Turnbull KCB CVO (to 29 July 2005 in post, leaving date 31 August 2005)	110-115 (245-250 full year equivalent)	11,700	230-235	27,000
Sir Gus O'Donnell KCB (from 1 August 2005)	140-145 (210-215 full year equivalent)	20,600	-	-
Colin Balmer CB* (to 28 February 2006)	125-130 (140-145 full year equivalent)	-	135-140	-
Paul Britton CB	135-140	-	130-135	-
Sir Geoffrey Bowman KCB	265-270	-	205-210	-
Kim Darroch CMG	135-140	19,400	75-80 (120-125 full year equivalent)	9,800
Howell James CBE	150-155	22,000	100-105 (135-140 full year equivalent)	12,600
Bill Jeffrey CB (from 18 April 2005 to 11 November 2005)	90-95 (160-165 full year equivalent)	17,800	-	-
Anne-Marie Lawlor	75-80	-	-	-
Sir Richard Mottram GCB (from 14 November 2005)	70-75 (205-210 full year equivalent)	14,600	-	-
Sir David Omand GCB (to 15 April 2005)	20-25 (190-195 full year equivalent)	-	185-190	19,200
Jerry Page	70-75	-	-	-
Ivan Rogers	125-130	-	115-120	-
William Sargent (from 1 September 2005)	40-45 (65-70 full year equivalent)	-	-	-
Sir Nigel Sheinwald KCMG	160-165	-	150-155	200
Ian Watmore	195-200	-	-	-
Liz Woodeson (from 12 December 2005)	30-35 (80-85 full year equivalent)	-	-	-

*Colin Balmer CB received compensation through the Civil Service Compensation Scheme (CSCS).

Fees paid to Non-Executive Members

Millie Banerjee CBE was non-executive chair of the Cabinet Office Audit and Risk Committee and an external member of both the Strategy Board and Cabinet Office Board until 31 December 2005 and was entitled to receive fees of £14,000 per annum. Karen Jordan, Kenneth Ludlam and Polly Williams are non-executive members of the Audit and Risk Committee and are each entitled to receive fees of £4,000 per annum. Claimed fees are included within agency/temporary costs at note 9 to the accounts.

Salary

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

This report is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP £59,095 (2004-05: £57,485) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Her Majesty's Revenue and Customs as a taxable emolument; those for senior officials range from minor benefits in kind to the private use of official cars.

B. Pension Benefits:

Ministers

Ministers	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2006	CETV at 31 March 2006 or End date	CETV at 31 March 2005 or Start Date	Real increase in CETV
	£000	£000	£000	£000	£000
The RT Hon Alan Milburn MP (to 6 May 2005)	0 – 2.5	5 – 10	82	80	1
The RT Hon John Hutton MP (from 7 May 2005 to 2 November 2005)	0 – 2.5	5 – 10	60	54	3
The RT Hon David Miliband MP (to 6 May 2005)	0 – 2.5	0 – 5	20	19	1
Jim Murphy MP (from 10 May 2005)	0 – 2.5	0 – 5	17	12	2

Ministerial pensions

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

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

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65.

Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6 per cent of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9 per cent to 10 per cent from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24 per cent of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

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

The real increase in the value of the CETV

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

Officials

Senior Management	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2006 and related lump sum	CETV at 31 March 2006 or End Date	CETV at 31 March 2005 or Start Date	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Sir Andrew Turnbull KCB CVO (to 29 July 2005 in post, leaving date 31 August 2005)	0 – 2.5 plus 5 – 7.5 lump sum	105 – 110 plus 325 – 330 lump sum	2,621	2,316	49	–
Sir Gus O'Donnell KCB (from 1 August 2005)	10 – 12.5 plus 35 – 37.5 lump sum	75 – 80 plus 230 – 235 lump sum	1,562	1,139	248	–
Colin Balmer CB (to 28 February 2006)	0 – 2.5	85 – 90	1,805	1,149	–	–
Paul Britton CB	2.5 – 5 plus 12.5 – 15 lump sum	55 – 60 plus 175 – 180 lump sum	1,327	932	89	–
Sir Geoffrey Bowman KCB	7.5 – 10 plus 27.5 – 30 lump sum	105 – 110 plus 320 – 325 lump sum	2,602	2,114	203	–
Kim Darroch CMG	5 – 7.5 plus 17.5 – 20 lump sum	50 – 55 plus 150 – 155 lump sum	812	673	118	–
Howell James CBE	0 – 2.5	0 – 5	51	15	26	–
Bill Jeffrey CB (from 18 April 2005 to 11 November 2005)	2.5 – 5 plus 10 – 12.5 lump sum	60 – 65 plus 185 – 190 lump sum	1,372	1,209	80	–
Anne-Marie Lawlor	2.5 – 5	20 – 25	268	175	29	–
Sir Richard Mottram GCB (from 14 November 2005)	5 – 7.5 plus 17.5 – 20 lump sum	90 – 95 plus 275 – 280 lump sum	2,279	2,021	146	–
Sir David Omand GCB* (to 15 April 2005)	0 – 2.5 plus 0 – 2.5 lump sum	75 – 80 plus 230 – 235 lump sum	1,677	1,402	–	–
Jerry Page	0 – 2.5 plus 2.5 – 5 lump sum	25 – 30 plus 85 – 90 lump sum	534	399	22	–
Ivan Rogers	2.5 – 5	30 – 35	464	340	39	–
William Sargent (from 1 September 2005)	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 0 – 5 lump sum	8	–	13	–
Sir Nigel Sheinwald KCMG	2.5 – 5 plus 10 – 12.5 lump sum	55 – 60 plus 165 – 170 lump sum	1,095	816	71	–
Ian Watmore	0 – 2.5	0 – 5	40	11	22	–
Liz Woodeson (from 12 December 2005)	0 – 2.5 plus 5 – 7.5 lump sum	15 – 20 plus 45 – 50 lump sum	309	205	33	–

*Sir David Omand GCB received an early retirement package under the terms of the Civil Service Compensation Scheme which enhanced the value of his pension.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year.

Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of

premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service.

Unlike classic, there is no automatic lump sum, but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution).

Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

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

Statement on the Disclosure of Relevant Audit Information

I hereby confirm that so far as I am aware, there is no relevant audit information of which the Cabinet Office's auditors are unaware and that I have taken all reasonable steps to ensure that I am aware of any relevant audit information and to establish that the Cabinet Office's auditors are aware of that information.

Sir Gus O'Donnell KCB
Accounting Officer
Secretary of the Cabinet and Head of the Home Civil Service

18 July 2006

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Cabinet Office to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.

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

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

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

HM Treasury has appointed the Permanent Head of the Department as principal Accounting Officer of the Department.

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

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental 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 is based on a process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts. It accords with Treasury guidance.

Capacity to handle risk

Risk management in the Cabinet Office continues to make good progress by embedding the Risk Management Framework that has been in place since the beginning of the accounting period.

Through regular communication to Heads of Management Units, the network of Local Risk Managers and all Cabinet Office staff, the Risk Improvement Manager and I have continued to ensure that risk management has maintained a high profile in the Department. Guidance on managing risk is provided to staff via a Risk Management Website on the departmental intranet and has been designed to illustrate the high level framework for managing risk. The Department has also been addressing the risk management training and awareness needs of its staff through the facilitation of risk management workshops by the Internal Audit Service.

The Department has continued to use the Risk Management Assessment Framework (RMAF) recommended by HM Treasury to allow a comprehensive assessment of our overall position. These assessments have demonstrated improvements in our risk management capability during 2005-06. Recommendations arising from these reviews have been implemented during the financial year and will continue to drive improvements in our performance.

The risk and control framework

Risk Management Framework

A Risk Management Framework has been in place since the beginning of the accounting period. Key features of this Framework, under each of the five capabilities in the RMAF, are as follows:

Leadership

The management Board regularly discusses all major areas of risk affecting the Cabinet Office and it is currently re-visiting its risk profile and portfolio given the changed objectives and developing strategy of the Cabinet Office.

The departmental Statement of Approach to Risk remains as the guide to the Cabinet Office's attitude to, and appetite for, risk and also explicitly encourages staff to undertake well-managed risk taking.

Risk strategy and policies

The Cabinet Office has a risk management strategy that is clearly communicated to its staff through the intranet, internal newsletters, workshops and presentations.

The strategy:

- is endorsed by the Accounting Officer, Board, and Audit and Risk Committee;
- defines the structures and responsibilities for the management and ownership of risk;
- indicates the way in which risk issues are to be identified, assessed, responded to, reduced, owned, recorded, monitored and reviewed;
- ensures common understanding of terminology used in relation to risk issues; and
- defines the structures for gaining assurance about the management of risk.

People

The Statement of Approach to Risk encourages staff to identify and take opportunities by managing risks well. Good risk management appears as an effective behaviour in the competence frameworks for both Senior Civil Service (SCS) and non-SCS staff.

Resources available to staff include:

- guidance on managing risk via the intranet;
- workshops on risk management offered to all Management Units; and
- access to expertise in the Internal Audit Service and in the Financial Management Division.

Partnerships

The Department has formulated guidance on managing risk when working in partnership with other organisations. Management Unit risk registers and evidence from the central risk register demonstrates that risks associated with working with other organisations are routinely identified and managed.

Processes

The Risk Management Framework specifically covers:

- general principles to policy making, project management, delivery planning and working in partnership with other organisations;
- criteria for evaluating the magnitude of risks, both in terms of likelihood and impact of maturity;
- criteria for determining risk ownership, including considering the impact and effectiveness of the measures introduced to control risk; and
- other factors to be considered in the assessment of risks including the potential impact on finances, stakeholders, reputation and strategy.

The Board, Audit and Risk Committee, and Internal Audit Service have agreed to arrangements for the regular review of the Risk Management Framework.

Other controls

In addition to the Risk Management Framework, the Department also has the following internal control systems in place:

- an annual budget endorsed by the Board and reviewed by them during the year, together with headcount controls and other efficiency targets;
- risks to objectives and targets are identified by each Management Unit as part of the annual business planning process;
- regular reviews of performance including a retrospective summary of how the Department's corporate risk exposure has evolved;
- a framework document setting out delegated authorities and the publication of an annual report;
- mandatory six monthly stewardship reports on corporate governance from all Management Units;

- delegation letters issued to Heads of Management Units, with supporting advice on roles and responsibilities and guidance available on the intranet;
- specific references to compliance with the departmental Risk Management Framework have been introduced into financial allocation letters; and
- regular month-end accruals based income and expenditure reports for all Management Units have been introduced. Together with the purchase order system, the financial processes continue to support greater financial control and accruals based reporting.

Internal Audit

The Department has an Internal Audit Service (IAS), which carries out its work in accordance with the Government Internal Audit Standards. The work of the Internal Audit Service is informed by an analysis of the risk to which the Department is exposed and annual internal audit plans are based on this analysis. Although this is not a full risk-based assessment, it is increasingly informed by risk analysis and both that analysis and the resultant internal audit plans are discussed and endorsed by the Department's Audit and Risk Committee and approved by me.

At least annually, the Internal Audit Director (IAD) provides me with a report on internal audit activity in the Department which includes the IAD's independent opinion on the adequacy and effectiveness of the Department's system of internal control.

For 2005-06, IAS, on the basis of the reviews undertaken this year, has provided me with reasonable assurance that a sound framework of governance exists, although there are concerns that where managers are responsible for common systems they have difficulty in meeting their responsibilities in a diverse organisational structure.

IAS has identified the wide-spread use of risk management processes across the Department, although there are a number of issues that need to be resolved in relation to the departmental risk framework in order for this to be more effective and comprehensive.

Recommendations have been made to help improve internal controls although none were of such significance that we regard them as placing the Department at significant risk.

The Audit and Risk Committee is attended by representatives of the National Audit Office and has a non-executive chair. Whilst the Board is responsible for the overall oversight and approach to risk management, the role of the Audit and Risk Committee is to advise me on the adequacy of risk management, control and governance. Its formal terms of reference are "to give advice to the Accounting Officer on the adequacy of audit, risk management, control arrangements and corporate governance across the Cabinet Office". The Committee formally reports annually to me as the Accounting Officer with an independent opinion on risk management process. The most recent report was made during July 2006.

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, the Audit and Risk Committee which oversees 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 Audit and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place. The individual statements of assurance that I have received from Heads of Management Units have provided reasonable assurance that the systems of internal control are sound and operating effectively.

Planned improvements

We need to continue with the progress achieved in the period under review by taking steps to ensure that good risk management techniques are firmly established as a routine element of all work in the Cabinet Office. Operational and strategic risks are being identified and managed at Management Unit level within projects and teams and on a departmental basis. However, we recognise that a challenge for the Department to take forward this year is to improve the way in which information is cascaded between those tiers and to develop a robust challenge function, one which is focused on intervening where the most value can be added.

Effective risk management will be a vital tool in helping us to ensure that our resources are targeted correctly and focusing the Department on delivering its objectives.

We will ensure that risk management continues to enjoy a high profile within the Department, and encourage support and engagement from our Ministers and senior officials. Members of the Financial Management Division have continued to play an active role in the Treasury-led Risk Improvement Managers Network and the Department also participated in a pan-governmental project aimed at researching, identifying and promoting outstanding practice in achieving extraordinary performance through innovation and effective risk management. The final report of the project, Innovation and Risk Management – a recipe for improving performance, was published in April 2006 by the National School of Government and is available at: <http://www.nationalschool.gov.uk/publications/irers.asp>.

We will continue to monitor the Cabinet Office's electronic purchase order system, ePOP2, to ensure, throughout the Cabinet Office, staff awareness of the need to raise orders before the commencement of the supply of goods or services ordered. We recognise the need for business improvements to assist in the full adherence to these requirements.

We have recognised the need to improve the resilience of Business Continuity Planning in the Cabinet Office and this will continue to be a priority for the coming year.

There is a five year Departmental Plan which is currently under review.

Sir Gus O'Donnell KCB
Accounting Officer
Secretary of the Cabinet and Head of the Home Civil Service

18 July 2006

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

I certify that I have audited the financial statements of the Cabinet Office for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

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

My responsibility is to audit the financial statements 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 part of the Financial Statements and the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 26 to 29 reflects the Department's compliance with HM 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 statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Overview, Management Commentary and the unaudited part of the Remuneration Report. 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

19 July 2006

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

		2005-06							2004-05
		£000							Restated
		Estimate			Outturn			Net total outturn compared with Estimate: saving/ (excess)	Outturn
Request for Resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total	
1*	2	326,855	(103,722)	223,133	320,849	(103,639)	217,210	5,923	247,734
Total Resources	3	326,855	(103,722)	223,133	320,849	(103,639)	217,210	5,923	247,734
Non-Operating Cost A in A				21			21	-	22

Request for Resources 1*: Supporting the Prime Minister's Office closely in ensuring the delivery of Government objectives

Net cash requirement 2005-06

		2005-06			2004-05	
		£000			Restated	
		Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)	Outturn
Net Cash Requirement	4, 24(e)		200,456	170,076	30,380	201,945

Summary of income payable to the Consolidated Fund

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

		Forecast 2005-06		Outturn 2005-06	
		£000		£000	
	Note	Income	Receipts	Income	Receipts
Total	5	-	-	21	21

Explanations of variances between Estimate and Outturn are given in Note 2 and in the Management Commentary under the heading Performance against Parliamentary Control totals.

The notes on pages 38 to 66 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2006

		2005-06		2004-05
		£000		Restated £000
	Note	Staff Costs	Other Costs	Income
Administration Costs:				
Staff costs	9	90,757		86,905
Other administration costs	10		127,419	123,226
Operating income	12			(59,973)
				(54,860)
Programme Costs:				
Staff Costs	9	10,726		1,364
Programme costs	11		88,568	110,429
Income	12			(40,308)
				(19,308)
Totals		101,483	215,987	(100,281)
Net Operating Cost	13			217,189
				247,756

The notes on pages 38 to 66 form part of these accounts.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

	2005-06 £000	2004-05 Restated £000
Net gain/(loss) on revaluation of tangible fixed assets	6,539	10,534
Net gain/(loss) on revaluation of intangible fixed assets	-	-
Net gain/(loss) on revaluation of investments	-	-
Receipt of donated assets	108	34
Recognised gains and losses for the financial year	6,647	10,568

The notes on pages 38 to 66 form part of these accounts.

Balance Sheet

as at 31 March 2006

	Note	2005-06 £000	2004-05 Restated £000
Fixed assets:			
Tangible assets	14	227,848	241,970
Intangible assets	15	220	772
Investments	16	436	457
Current assets:			
Stocks	17	606	507
Debtors	18	25,965	32,412
Cash at bank and in hand	19	7,574	11,477
		<u>34,145</u>	<u>44,396</u>
Creditors (amounts falling due within one year)	20	<u>(63,349)</u>	<u>(57,544)</u>
Net current assets		<u>(29,204)</u>	<u>(13,148)</u>
Total assets less current liabilities		199,300	230,051
Creditors (amounts falling due after more than one year)	20	(3,497)	-
Provisions for liabilities and charges	21	(7,053)	(7,131)
		<u>188,750</u>	<u>222,920</u>
Taxpayers' equity:			
General fund	22	148,428	187,992
Revaluation reserve	23a	36,160	30,185
Donated asset reserve	23b	4,162	4,743
		<u>188,750</u>	<u>222,920</u>

Sir Gus O'Donnell KCB
Accounting Officer
Secretary of the Cabinet and Head of the Home Civil Service

18 July 2006

The notes on pages 38 to 66 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2006

		2005-06 £000	2004-05 Restated £000
	Note		
Net cash outflow from operating activities	24(a)	(156,594)	(178,146)
Capital expenditure and financial investment	24(b)	(17,627)	(23,757)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payments of amounts due to the Consolidated Fund		(174)	(3,878)
Financing	24(d)	170,492	214,252
(Decrease)/increase in cash in the period	24(e)	(3,903)	8,471

The notes on pages 38 to 66 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2006

	2005-06			2004-05 Restated		
	£000			£000		
	Gross	Income	Net	Gross	Income	Net
Aim:						
Objective 1	97,563	(20,263)	77,300	82,457	(16,141)	66,316
Objective 2	46,612	(12,182)	34,430	62,485	(5,160)	57,325
Objective 3	162,618	(66,246)	96,372	168,004	(51,602)	116,402
Objective 4	10,677	(1,590)	9,087	8,978	(1,265)	7,713
Net operating costs	317,470	(100,281)	217,189	321,924	(74,168)	247,756

The Department's aim is to **make Government more effective by providing a strong centre.**

The Department's objectives were as follows:

- Objective 1 – Support the Prime Minister in **leading** the Government
- Objective 2 – Achieve **co-ordination** of policy and operations across government
- Objective 3 – Improve delivery by **building capacity** in departments and the public services
- Objective 4 – **Promote standards** that ensure good governance, including adherence to the Ministerial and Civil Service Codes

See Note 25.

The notes on pages 38 to 66 form part of these accounts.

Notes to the Departmental Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005–06 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

1.1. Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs.

1.2. Tangible fixed assets

With the exceptions stated below concerning non-operational heritage assets, tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £5,000 is capitalised. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition.

Title to the freehold land and buildings is held by the Cabinet Office. The replacement cost for freehold land and buildings is existing use value with the addition of notional directly attributable acquisition costs.

Except for non-operational heritage assets, all tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations (using the RICS Appraisal and Valuation Model) in accordance with FRS 15 every five years and in the intervening years by the use of published indices appropriate to the type of land or building. Non-property operational assets are re-valued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value. Residual interests in off-balance sheet PFI properties are included in tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual to the balance sheet date plus an adjustment based on the net present value of the change in the fair value of the residual as estimated at the start of the contract and its estimated fair value at the balance sheet date.

Art and antiques, including some heritage assets, have been inherited by the Department since its earliest existence and are held mainly in Number 10, Downing Street and 70, Whitehall. They are subject to professional valuation on the basis of insurance value or mid-auction estimate every five years with the revaluation being taken into the revaluation reserve. They are not depreciated.

e-Government projects represent the development of the Government Gateway, Delivering on the Promise (DotP) and Knowledge Network. Expenditure covers the software, hardware and consultancy costs of developing the infrastructure to run these services.

These assets are owned by the whole of government, but their value is disclosed on the Cabinet Office balance sheet since e-Government manages and is responsible for their development. Project net book values in respect of owned assets as at 31 March 2006 amounted to £11.9 million (2004-05: £37.1 million). The projects have been funded by HM Treasury Capital Modernisation Fund and each asset has been given an estimated useful economic life of three years. These assets are valued at cost as a proxy for replacement cost.

The Cabinet Office has a non-exclusive licence agreement with a leading computer firm to market and exploit the Government Gateway technology. A value has not been disclosed in these accounts to reflect the total anticipated royalties that should accrue in respect of this non-exclusive licence agreement on the grounds that this is uncertain.

More background information on these projects and the overall vision for e-Government can be found on the web site of the e-Government Unit at: www.cabinetoffice.gov.uk/e-government.

1.3. Depreciation

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

Asset lives are normally in the following ranges:

a	Freehold Buildings including Dwellings	25 to 60 years
b	Leasehold Buildings and Improvements	over the remaining term of the lease
c	Plant and Machinery	3 to 10 years
d	Furniture and Fittings	5 to 20 years
e	Information Technology and Office Equipment	3 to 7 years
f	Motor Vehicles	3 to 5 years

1.4. Donated assets

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

Gifts of ornaments and jewellery received by past and present Prime Ministers and their spouses are treated as donated tangible fixed assets within Art and Antiques and capitalised at their current value on receipt with this value being taken to the donated asset reserve. They are subject to professional valuation every five years with the revaluation being taken to the donated asset reserve. They are not depreciated, since by their nature, their useful economic life is unknown.

With effect from 31 March 2004, the Civil Service Club has been recognised as a donated asset and its value credited to the donated asset reserve. Members of the Civil Service and the Foreign Service contributed to the wedding present for Her Majesty The Queen and part of the sum subscribed was, by her wish, applied to some object of general benefit to the Civil and Foreign Services and consequently the Civil Service Club was purchased – see Note 23(b).

1.5. Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. As a reliable evidence of market value could not be obtained, these have not been re-valued. Software licences are amortised over periods ranging from 3 to 5 years, being the useful economic life.

1.6. Investments

Financial interests in bodies which are outside the departmental boundary are treated as fixed asset investments since they are held for the long term. These comprise loans issued by the Cabinet Office to the Civil Service Sports Council and the London Hostels Association and are shown at historical cost.

1.7. Stocks

Stocks of insignia are valued at the lower of replacement cost and net realisable value.

1.8. Operating income

Operating income is income which relates directly to the operating activities of the department. It principally comprises fees and charges for services provided on a full-cost basis to external customers as well as public re-payment work and includes income appropriated in aid of the Estimate and income to the Consolidated Fund, which in accordance with the FReM, is treated as operating income. Operating income is stated net of VAT.

1.9. Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in the FReM by HM Treasury.

Administration costs reflect the costs of running the department. These include both administration costs and associated operating income. Income is analysed in the notes between that which is allowed to be offset against gross administration costs in determining the outturn against the gross administration budget, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department, as well as certain staff costs where they relate directly to service delivery.

1.10. Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for donated assets, cash balances held with the Office of the Paymaster General and those amounts due to and from the Consolidated Fund where the charge is nil.

1.11. Foreign exchange

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

1.12. Pensions

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

1.13. Leases

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

1.14. Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No.1 (Revised), entitled *How to Account for PFI Transactions* as required by the *FReM*. Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the department, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI property is borne by the department, the property is recognised as a fixed asset. The PFI payments for servicing the property held under the PFI contract are charged to the Operating Cost Statement.

1.15. Grants payable

Grants payable are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs. Grants related to activity occurring over a specific time period (usually a financial year) are recorded as expenditure for that period.

1.16. Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 2.2 per cent). The real rate was previously set at 3.5 per cent and the effect of this change to estimation technique on the financial results is immaterial.

1.17. Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

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

1.18. Value Added Tax

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

1.19. Third party assets

The Cabinet Office did not hold funds on behalf of any other parties during the year.

1.20. Corresponding amounts

During the year, responsibility for the following functions transferred from the Cabinet Office.

As part of the machinery of government changes, the Office of the Chief Whip of the House of Commons and the Office of the Chief Whip of the House of Lords were transferred to the Privy Council Office on 1 February 2006, the Government Social Research Unit transferred to HM Treasury on 13 February 2006 and the Government Car and Despatch Agency transferred to the Department for Transport on 14 February 2006.

Also, the Government News Network moved to the Central Office of Information on 1 April 2005.

These transfers have been accounted for as a business combination using merger accounting principles in accordance with the *FReM*. Accordingly, the results and cash flows related to the transferred services have been written out of the account from the start of the financial year. Prior year comparatives have been re-stated with corresponding adjustments being made to the general fund; operating costs have decreased by £1.745 million and the general fund has decreased by £4.743 million.

The accounting treatment of the National School of Government's PFI contract for its site at Sunningdale Park is explained at Note 28. The recognition of the deferred asset as a tangible fixed asset with associated depreciation is a change from the previous treatment. The change has no net effect on either the income and expenditure account or on the balance sheet. The opening balance sheet and prior year figures have been amended to reflect the revised treatment.

2. Analysis of net resource outturn by section

	2005-06						2004-05		Prior-year outturn
	£000						Restated £000		
	Outturn						Estimate		
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Net Total compared with Estimate	
Request for resources 1:									
<i>Central Government Spending:</i>									
Cabinet Office	192,757	93,989	3,932	290,678	(73,321)	217,357	222,236	4,879	227,025
National School of Government	28,798	–	–	28,798	(30,318)	(1,520)	291	1,811	794
<i>Support for Local Authorities:</i>									
Emergency Planning Grants	–	–	1,373	1,373	–	1,373	606	(767)	19,915
Resource Outturn	221,555	93,989	5,305	320,849	(103,639)	217,210	223,133	5,923	247,734
Transfer of Resource Budget (to)/from other government departments in respect of:									
Parliamentary Counsel Office	–	–	–	–	–	–	(8,763)	(8,763)	–
Other	–	–	–	–	–	–	724	724	–
End Year Flexibility:									
Drawn down against prior years under-spend	–	–	–	–	–	–	7,900	7,900	–
Resource Outturn against Resource Departmental Expenditure Limit	221,555	93,989	5,305	320,849	(103,639)	217,210	222,994	5,784	247,734

Request for resources 1 – Supporting the Prime Minister's Office closely in ensuring the delivery of Government objectives

Explanation of variances between Estimate and Outturn:

Cabinet Office

Savings include £3.3 million under-spend on depreciation charges by SCOPE cross-departmental information strategy whose capital expenditure has been re-scheduled due to an extended pre-contract risk reduction phase and this in turn has led to lower than expected depreciation charges.

National School of Government

In July 2005 the Civil Service Management Board agreed that in order for the National School of Government to develop capacity in the longer term, the stakeholder departments should provide around £4,175k of funding. In the event, the National School did not spend all of this funding in 2005-06 leading to a surplus against the Estimate. The unused funding will be available for use by the National School in 2006-07.

Emergency Planning Grants

Administration of civil defence grants has passed to the Department for Communities and Local Government and Wales Office, except for a grant of £606k to the London Fire Emergency Planning Authority. Excess expenditure of £767k relates to an accrual for late claims still due from Local Authorities in respect of civil defence grants for prior years.

Detailed explanations of the variances are given in the Management Commentary under the heading Performance against Parliamentary Control totals.

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

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

	Note	2005-06		2004-05
		Outturn	Supply Estimate	Restated
		£000	Outturn compared with Estimate	£000
Net Resource Outturn	2	217,210	223,133	247,734
Prior Period Adjustments		–		–
Non-supply Income (CFERs)	5	(21)		(39)
Consolidation elimination entries excluded from Statement of Parliamentary Supply		–		61
Non-supply Expenditure	22	–		–
Net Operating Cost		217,189		247,756

3(b) Outturn against final Administration Budget

	2005-06		2004-05
	Budget	Outturn	Restated
	£000	£000	£000
Gross Administration Budget – see Note 2 total Admin	258,171	221,555	213,238
Income allowable against the Administration Budget	(62,340)	(63,331)	(57,989)
Net outturn against final Administration Budget	195,831	158,224	155,249

Gross administration budget of £258,171,000 included costs subsequently classified as “other current” within net resource outturn and “programme costs” within net operating cost.

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/(excess) £000
Resource Outturn	2	223,133	217,210	5,923
Capital:				
Acquisition of fixed assets	24c	23,891	18,120	5,771
Investments		–	–	–
Non-operating A in A:				
Proceeds of fixed asset disposals		–	–	–
Loan repayment	24c	(21)	(21)	–
Accruals adjustments:				
Non-cash items	24a	(46,562)	(46,839)	277
Changes in working capital other than cash	24a	–	(16,114)	16,114
Changes in creditors falling due after more than one year	20	–	(3,497)	3,497
Use of provision	21	15	1,217	(1,202)
Excess cash receipts surrenderable to the Consolidated Fund	5	–	–	–
Net cash requirement		200,456	170,076	30,380

Detailed explanations of the variances between Estimate and outturn are given in the Management Commentary under the heading Performance against Parliamentary Control totals.

5. Analysis of income payable to the Consolidated Fund

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

	Note	Forecast 2005-06		Outturn 2005-06	
		Income	Receipts	Income	Receipts
		<i>£000</i>		<i>£000</i>	
Operating income and receipts – excess A in A		–	–	–	–
Other operating income and receipts not classified as A in A		–	–	21	21
	22	–	–	21	21
Non-operating income and receipts – excess A in A	7	–	–	–	–
Other non-operating income and receipts not classified as A in A	8	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
Excess cash surrenderable to the Consolidated Fund	4	–	–	–	–
Total income payable to the Consolidated Fund		–	–	21	21

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

	Note	2005-06	2004-05
		<i>£000</i>	Restated <i>£000</i>
Operating income	12	100,281	74,168
Consolidation elimination adjustments between Cabinet Office and National School of Government		1,246	1,618
Netted off in Operating Cost:			
Seconded staff	9	2,133	1,550
Gross income		103,660	77,336
Income authorised to be appropriated-in-aid	2	(103,639)	(77,297)
Operating income payable to the Consolidated Fund	5	21	39

7. Non-operating income – Excess A in A

	2005-06	2004-05
	<i>£000</i>	Restated <i>£000</i>
Principal repayments of voted loans	–	–
Proceeds on disposal of fixed assets	–	3
Other	–	–
Non-Operating Income – excess A in A	–	3

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

	Income	Receipts
	<i>£000</i>	<i>£000</i>
Total	–	–

9. Staff numbers and related costs

Staff costs consists of:

	2005-06					2004-05
	£000					Restated
	Total	Permanently employed staff	Others	Ministers	Special advisers	Total
Wages and salaries	69,509	66,960	–	99	2,450	65,864
Social security costs	6,323	6,048	–	7	268	5,928
Other pension costs	13,220	12,698	–	–	522	8,932
Agency/Temporary	9,539	–	9,539	–	–	4,506
Sub total	98,591	85,706	9,539	106	3,240	85,230
Inward secondments	5,025	5,025	–	–	–	4,589
Total	103,616	90,731	9,539	106	3,240	89,819
Less:						
Recoveries in respect of outward secondments	(2,133)	(2,133)	–	–	–	(1,219)
Recoveries in respect of loaned staff	–	–	–	–	–	(331)
Total net costs *	101,483	88,598	9,539	106	3,240	88,269

* Of the total, £nil has been charged to capital (2004-05: £nil)

During the year, costs of £13,219,745 were incurred in respect of pensions (2004-05: £8,932,353).

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

For 2005-06, employers' contributions of £12,511,692 were payable to the PCSPS (2004-05: £8,578,925) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands (the rates in 2004-05 were between 12 per cent and 18.5 per cent).

The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1 per cent and 25.5 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2005-06 employers' contributions of £175,939 (2004-05: £143,586) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent (2004-05: 3 per cent to 12.5 per cent) of pensionable pay.

Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £10,450 (2004-05: £8,674), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £951 (2004-05: £739). Contributions prepaid at that date were £nil (2004-05: £nil).

Special advisers' pension costs incurred during the year were £521,664 (2004-05: £201,168).

During the year, three staff members (2004-05: none) retired early on the grounds of ill health. The accrued pension liability payable by the scheme was £1,249 (2004-05: £nil).

Average number of persons employed

The average number of whole-time equivalent persons employed, including agency/temporary staff, during the year was as follows:

Objective	2005-06					2004-05 Restated
	Total	Permanent staff	Others*	Ministers	Number Special advisers	Number Total
1	782	682	72	-	28	656
2	312	273	39	-	-	262
3	826	689	135	1	1	893
4	95	87	7	1	-	109
Staff engaged on Capital Projects	-	-	-	-	-	-
Total	2,015	1,731	253	2	29	1,920

* 'Others' category represents agency/temporary staff. Headcount in 2005-06 was 253 (2004-05: 175).

10. Other Administration Costs

Note	2005-06		2004-05 Restated
	£000		£000
Rentals under operating leases:			
Hire of plant and machines		7,797	9,592
Land and buildings		6,808	6,019
Interest charges			
		43	-
PFI service charges			
		3,038	3,588
Research and development expenditure			
		-	-
Non-cash items			
Depreciation		8,816	8,703
Release of donated asset reserve	23b	(45)	(42)
Amortisation		208	495
Impairment of fixed assets		2,778	2,406
Release of donated asset reserve	23b	(984)	-
Loss on disposal of fixed assets		61	38
Cost of capital charges	22	5,736	6,021
Auditors' remuneration and expenses *	22	216	215
Provisions provided for in year	21	1,324	352
Unwinding of discount on provisions	21	(185)	70
Total non-cash items		17,925	18,258
Other expenditure		91,808	85,769
Total		127,419	123,226

* No payments were made to the auditors in respect of non-audit services.

Other expenditure comprises:

	2005-06	2004-05 Restated
	£000	£000
Accommodation and utilities	27,981	27,562
IT costs	8,517	10,450
Supplies and services	28,955	25,841
Other staff related costs	10,524	9,616
Travel, subsistence and hospitality	9,399	7,009
NSoG external lecturer fees and contracted out courses	6,432	5,291
Other expenditure	91,808	85,769

11. Programme Costs

		2005-06 £000	2004-05 Restated £000
	Note		
Rentals under operating leases		-	-
Interest charges		-	-
PFI service charges		-	-
Research and development expenditure		-	-
Non-cash items			
Depreciation		26,908	32,241
Amortisation		415	806
Impairment of fixed assets		255	5,170
Loss on disposal of fixed assets		-	-
Cost of capital charges	22	1,342	2,136
Auditors' remuneration and expenses		-	-
Provisions provided for in year	21	-	-
Unwinding of discount on provisions	21	-	-
Total non-cash items		28,920	40,353
Other expenditure		59,648	70,076
Total		88,568	110,429

Other expenditure comprises:

	2005-06 £000	2004-05 Restated £000
Civil Defence grants to Local Authorities	1,373	19,915
Other grants	3,932	5,434
Accommodation and utilities	14,148	7,874
IT costs	7,878	168
Supplies and services	31,321	36,495
Other staff related costs	609	108
Travel, subsistence and hospitality	387	82
Other expenditure	59,648	70,076

Other expenditure analysed by programme:

	2005-06 £000	2004-05 Restated £000
Civil Defence grants to Local Authorities	1,373	19,915
Other grants	3,932	5,434
Warning and informing	-	7,351
Honours and dignities	449	754
SCOPE cross-departmental information strategy	4,674	2,933
e-Government	31,427	24,077
Central sponsor for information assurance :		
Common Good Funding	10,728	4,834
UK secure communications	860	4,778
Contingency telecommunications	2,978	-
IT Safe	145	-
Whitehall HR shared services project	1,206	-
Other	1,876	-
Other expenditure	59,648	70,076

12. Income

	2005-06 £000	2004-05 Restated £000
	Total	Total
Administration Income :		
Income received by National School of Government	28,783	25,076
Recoveries from Principal Civil Service Pension Scheme	9,371	10,317
Contributions received by Parliamentary Counsel Office for services rendered to other government departments	10,666	9,887
Rental income on freehold properties	3,947	3,916
Emergency Planning College events	2,227	1,893
HMSO contractual and licensing income	805	678
Provision of media monitoring unit services	1,053	964
Various cost recoveries	3,094	2,074
Income payable to the Consolidated Fund	21	39
Non-cash:		
Notional interest on early departure pre-funding	6	16
Programme Income:		
Warning and informing	–	6,300
Honours and dignities	4	13
SCOPE cross-departmental information strategy	3,561	353
e-Government	29,007	12,642
Central sponsor for information assurance	6,809	–
Whitehall HR shared services project	927	–
Total	100,281	74,168

Income analysis for fees and charges purposes :

The National School of Government has a financial objective to recover its costs through fees and charges in accordance with the net provision set out in the Cabinet Office Supply Estimate approved by Parliament. Performance against this objective is recorded at Note 2.

Cost share arrangements :

e-Government has entered into cost share arrangements with other government departments to deliver and operate DirectGov, the Government's primary digital service for citizens, and other common infrastructure.

13. Analysis of net operating cost by spending body

	2005-06 £000		2004-05 Restated £000
	Estimate	Outturn	Outturn
Spending body:			
Core Department	223,133	217,189	247,756
Net Operating Cost	223,133	217,189	247,756

14. Tangible fixed assets

	Land & Buildings excluding Dwellings	Dwellings	e-Government Projects	Information Technology	Plant & Machinery	Furniture & Fittings	Art & Antiques	Payments on Account & Assets under Construction	AUC e-Gov't Projects	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2005	164,949	16,147	127,869	13,561	6,328	4,360	8,297	10,791	3	352,305
Additions	2,844	–	6,494	3,435	565	59	–	4,317	335	18,049
Donations	–	–	–	–	–	–	108	–	–	108
Disposals	–	–	–	(5)	(272)	(41)	–	–	–	(318)
Reclassifications	(1,015)	–	–	–	1,015	–	–	–	–	–
Impairment *	139	–	–	(1,313)	–	–	(1,027)	(1,455)	(10)	(3,666)
Revaluations *	6,516	(3,623)	–	13	279	38	2,818	35	–	6,076
At 31 March 2006	173,433	12,524	134,363	15,691	7,915	4,416	10,196	13,688	328	372,554
Depreciation										
At 1 April 2005	6,481	134	90,753	7,167	3,643	2,157	–	–	–	110,335
Charged in year	3,399	129	26,679	3,640	1,336	541	–	–	–	35,724
Disposals	–	–	–	(5)	(226)	(26)	–	–	–	(257)
Reclassifications	949	–	–	–	(949)	–	–	–	–	–
Impairment *	–	–	–	(633)	–	–	–	–	–	(633)
Revaluations *	(394)	(121)	–	8	24	20	–	–	–	(463)
At 31 March 2006	10,435	142	117,432	10,177	3,828	2,692	–	–	–	144,706
Net book value at 31 March 2006										
	162,998	12,382	16,931	5,514	4,087	1,724	10,196	13,688	328	227,848
Net book value at 31 March 2005 Restated										
	154,972	16,013	37,116	6,394	2,685	2,203	8,297	14,287	3	241,970
Asset financing:										
Owned	147,466	12,382	11,525	5,514	4,087	1,724	10,196	13,688	328	206,910
PFI finance leased	8,047	–	5,406	–	–	–	–	–	–	13,453
PFI contract assets	2,472	–	–	–	–	–	–	–	–	2,472
PFI residual interests	5,013	–	–	–	–	–	–	–	–	5,013
Net book value at 31 March 2006	162,998	12,382	16,931	5,514	4,087	1,724	10,196	13,688	328	227,848

* Impairment and revaluations arise as a result of professional property valuations and the application of published indices which ensure the asset base is correctly valued.

Notes**VALUATION****Land and Buildings and Dwellings**

Cushman & Wakefield Healey & Baker, independent chartered surveyors, valued 22-26 Whitehall, Admiralty Arch, Admiralty House, 53 Parliament Street, 36 Whitehall and the Civil Service Club, London and Hannington Radio Mast, Hampshire as at 31 March 2004 and 10-12 Downing Street and 70 Whitehall as at 31 March 2006 on the basis of existing use value. Due to the unusual nature of the size, location and property categories, valuations of 10-12 Downing Street and Admiralty Arch are subject to valuation uncertainty.

Donaldsons, independent chartered surveyors, valued the Emergency Planning College, The Hawkhill, Easingwold, near York as at 31 March 2005 on the basis of existing use value.

The Valuation Office Agency valued Sunningdale Park, Ascot, Berkshire, occupied by the National School of Government, as at 30 September 2004 on the basis of existing use value.

Notional directly attributable acquisition costs, representing legal fees and stamp duty, are added onto existing use values to arrive at replacement cost for land, buildings and dwellings. The surveyors determine notional costs to be 5.75% of existing use values.

Art and Antiques

Sotheby's valued art and antiques, including furniture, carpets, clocks, silver and ceramics situated in properties within the Whitehall Estate in May 2005 on the basis of insurance value being the likely cost of replacing the items. This valuation is reflected in the 2004-05 account for items situated in 10-12 Downing Street. The valuation for items situated in other buildings within the Whitehall Estate was completed in Summer 2005 and is reflected in the 2005-06 account.

Andrew Hartley Fine Arts valued art and antiques, including antique and other furniture, silver, plate and objects situated at The Hawkhill, Easingwold, near York on 15 April 2005 at an average of the lower and higher figures of a presale auction estimate.

Included within Art and Antiques are gifts to past and present Prime Ministers. J. M. McCarthy Limited, jewellers and silversmiths, valued these in June 2005 on the basis of best estimate of the price at auction.

All Other

All other tangible non-heritage fixed assets are re-valued annually using indices provided by HM Treasury. Intangible assets are recorded at purchase cost and are not re-valued since an appropriate index is not available.

DONATED ASSETS**Land and Buildings**

The Civil Service Club has been recognised as a donated asset and its value credited to the donated asset reserve with effect from 31 March 2004. Members of the Civil Service and the Foreign Service contributed to the wedding present for Her Majesty The Queen and part of the sum subscribed was, by her wish, applied to some object of general benefit to the Civil and Foreign Services and consequently the Civil Service Club was purchased – see Note 23(b).

Art and Antiques

Gifts to past and present Prime Ministers are treated as donated assets within Art and Antiques and their value credited to the donated asset reserve – see Note 23(b).

ASSETS UNDER CONSTRUCTION

Included within assets under construction are assets relating to SCOPE cross-departmental information strategy amounting to £12.8 million (2004-05: £9.4 million) scheduled to be brought into use in 2 phases: Phase 1 during 2007-08 and Phase 2 during 2008-09.

PLANT AND MACHINERY

Included within Plant and Machinery are motor vehicles with a net book value of £0.03 million (2004-05: £0.04 million).

ASSET FINANCING – NATIONAL SCHOOL OF GOVERNMENT ASSETS UNDER A PFI CONTRACT

National School of Government has office buildings of £2,472k (2004-05: £2,477k) under an on-balance sheet PFI contract and training facilities of £8,047k (2004-05: £8,778k) under a finance lease and a residual interest in training facilities of £5,013k (2004-05: £3,496k). Further details about commitments under PFI contracts are disclosed at Note 28.

ASSET FINANCING – e-GOVERNMENT FINANCED LEASED ASSETS

e-Government projects include £6.7 million (2004-05: £Nil) relating to the gross value of IT hardware, software and network equipment purchased through a finance lease arrangement. Accumulated depreciation of £1.3 million (2004-05: £Nil) has been charged on these assets resulting in a net book value of £5.4 million (2004-05: £Nil).

15. Intangible fixed assets

Intangible fixed assets comprise purchased software licences.

	e-Government £000	Other £000	Total £000
Cost or valuation			
At 1 April 2005	2,595	6,249	8,844
Additions	71	–	71
Donations	–	–	–
Disposals	–	–	–
Revaluation	–	–	–
At 31 March 2006	2,666	6,249	8,915
Amortisation			
At 1 April 2005	2,085	5,987	8,072
Charged in year	415	208	623
Disposals	–	–	–
Revaluation	–	–	–
At 31 March 2006	2,500	6,195	8,695
Net book value at 31 March 2006	166	54	220
Net book value at 31 March 2005	510	262	772

16. Investments

	Civil Service Sports Council Loan £000	London Hostels Association Loan £000	Total £000
Balance at 1 April 2005	13	444	457
Additions	–	–	–
Disposals	–	–	–
Loan repayments	(1)	(20)	(21)
Revaluations	–	–	–
Loans repayable within 12 months transferred to debtors	–	–	–
Balance at 31 March 2006	12	424	436

The Department's share of the assets and results of the above bodies is summarised below:

	Civil Service Sports Council Loan £000	London Hostels Association Loan £000
Net assets at 31 March 2006	–	–
Turnover	–	–
Surplus for the year (before financing)	–	–

17. Stocks

	2005-06 £000	2004-05 Restated £000
Stocks of insignia	606	507
	606	507

18. Debtors

18(a) Analysis by type

	2005-06 £000	2004-05 Restated £000
Amounts falling due within one year:		
VAT	2,677	4,246
Trade debtors	12,659	17,675
Deposits and advances	1,089	1,023
Other debtors	94	273
Machinery of government transfer of function	2,709	2,253
Prepayments and accrued income	6,706	6,797
Early retirement pre-funding	31	145
	25,965	32,412

18(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05 Restated	2005-06	2004-05 Restated
	£000	£00	£000	£000
Balances with other central government bodies	18,386	26,979	-	-
Balances with local authorities	343	421	-	-
Balances with NHS Trusts	92	7	-	-
Balances with public corporations and trading funds	408	1,181	-	-
<i>Subtotal: intra – government balances</i>	19,229	28,588	-	-
Balances with bodies external to government	6,736	3,824	-	-
Total debtors at 31 March	25,965	32,412	-	-

19. Cash at bank and in hand

	2005-06 £000	2004-05 Restated £000
Balance at 1 April	11,477	6,723
Net change in cash balances	(3,903)	4,754
Balance at 31 March	7,574	11,477

The following balances at 31 March were held at:

Office of HM Paymaster General	7,426	11,307
Commercial banks and cash in hand	148	170
Balance at 31 March	7,574	11,477

20. Creditors

20(a) Analysis by type

	2005-06 £000	2004-05 Restated £000
Amounts falling due within one year:		
Other taxation and social security	2,133	2,220
Trade creditors	12,744	5,552
Other creditors	1,639	1,529
Accruals and deferred income	37,264	35,440
Current part of finance leases	1,995	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	7,553	12,629
Consolidated Fund extra receipts due to be paid to the Consolidated Fund		
Received	21	174
Receivable	-	-
	63,349	57,544
Amounts falling due after more than one year:		
Finance leases	3,497	-
	3,497	-

20(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	£000	Restated £00	£000	Restated £000
Balances with other central government bodies	22,389	27,258	-	-
Balances with local authorities	834	2,246	-	-
Balances with NHS Trusts	30	17	-	-
Balances with public corporations and trading funds	2,154	981	-	-
<i>Subtotal: intra – government balances</i>	25,407	30,502	-	-
Balances with bodies external to government	37,942	27,042	3,497	-
Total creditors at 31 March	63,349	57,544	3,497	-

21. Provisions for liabilities and charges

	Early Departure	Specific			Total
	Costs	Dilapidations	Free Rent	Other	
	£000	£000	£000	£000	£000
Balance at 1 April 2005 Restated	2,406	2,154	1,962	609	7,131
Provided in the year	1,081	243	-	-	1,324
Provisions not required written back	-	-	-	-	-
Provisions utilised in the year	(1,081)	-	(136)	-	(1,217)
Unwinding of discount	(185)	-	-	-	(185)
Balance at 31 March 2006	2,221	2,397	1,826	609	7,053

21.1 Early departure costs

The department meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme (PCSPS) benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms. In past years the department paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment. Payments are made monthly and it is anticipated that all payments will have been made against the provision by 2013.

21.2 Specific dilapidations

The department leases a number of properties which it is required to bring into a good state of repair at the end of the lease. A provision is made for the estimated costs of these repairs and spread over the term of the lease. The expiry dates of these leases range from May 2007 to March 2025. It is anticipated that most of the expenditure will take place at the end of the lease.

21.3 Free rent

The department holds a number of leases which included a free rent period. The rent reduction given through the rent free period is spread over the term of the lease. These leases have expiry dates ranging from May 2007 to March 2025.

21.4 Other

A provision for £609,000 has been established to meet the likely obligations arising on staff transfers between the Cabinet Office and other government departments relating to periods prior to 2003. This liability is expected to materialise by 2007-08.

22. General Fund

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

	2005-06		2004-05 Restated	
	£000	£000	£000	£000
Balance at 1 April		187,992		221,847
Prior Period Adjustment		—		—
Adjusted Opening Balance		187,992		221,847
Net Parliamentary Funding:				
Drawn Down		165,000		216,050
Deemed		12,629		1,048
Consolidated Fund Standing Services		—		—
Net financing from the Contingencies Fund		—		—
National Insurance Fund		—		—
Year end adjustment:				
Supply (Creditor)/Debtor – current year		(7,553)		(12,629)
Excess non-operating A in A		—		(135)
Excess Vote – prior year		—		—
Inter-departmental Debtor/(Creditor) for transfer of functions		52		—
Net Transfer from Operating Activities:				
Net Operating Cost		(217,189)		(247,756)
CFERS repayable to Consolidated Fund		(21)		(39)
Non-Cash Charges:				
Cost of Capital		7,078		8,157
Auditors' remuneration		216		215
Transfer from Revaluation Reserve		224		2,600
Transfer Standing Services		—		—
Stock removed from the balance sheet		—		(1,366)
Balance at 31 March		148,428		187,992

23. Reserves

23(a) Revaluation Reserve

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

	2005-06 £000	2004-05 Restated £000
Balance at 1 April	30,185	22,411
Arising on revaluation during the year (net):		
Statement of Recognised Gains and Losses	6,199	10,374
Transferred to general fund in respect of realised element of revaluation reserve	(224)	(2,600)
Balance at 31 March	36,160	30,185

23(b) Donated Asset Reserve

The donated asset reserve reflects the net book value of assets donated to the Department.

	2005-06 £000	2004-05 £000
Balance at 1 April	4,743	4,591
Additions during the year	108	34
Arising on revaluation during the year (net):		
Statement of Recognised Gains and Losses	340	160
Release to the Operating Cost Statement	(1,029)	(42)
Balance at 31 March	4,162	4,743

Included in Note 14 Tangible fixed assets are donated assets classified under the following headings:

	2005-06 £000	2004-05 £000
	Donated Asset Reserve	Donated Asset Reserve
Land and Buildings – Civil Service Club	3,352	3,079
Art and Antiques – Gifts to Prime Ministers	810	1,664
	4,162	4,743

24. Notes to the Cash Flow Statement

24(a) Reconciliation of operating cost to operating cash flows

		2005-06 £000	2004-05 Restated £000
	Note		
Net operating costs	13	(217,189)	(247,756)
Adjustments for non-cash transactions	10,11,12	46,839	58,595
(Increase)/Decrease in Stocks <i>Less movements in stocks relating to items not passing through the OCS</i>	17	(99)	1,268
Insignia stock removed from the balance sheet		–	(1,366)
(Increase)/Decrease in Debtors <i>Less movements in debtors relating to items not passing through the OCS</i>	18	6,447	12,386
Amounts relating to early departure pre-funding		(114)	(165)
Increase/(Decrease) in Creditors <i>less movements in creditors relating to items not passing through the OCS</i>	20	9,302	794
Amounts due to the Consolidated Fund for Supply		5,076	(11,581)
Amounts due to the Consolidated Fund for extra receipts		153	3,704
Amounts to settle prior year transfer of functions		–	1,798
Provision established out of prior year creditor		–	609
Other		172	182
Movement in amounts relating to finance lease		(5,492)	–
Movement in capital accruals relating to investing activities	24(b)	(472)	4,751
Use of provisions	21	(1,217)	(1,365)
Net cash outflow from operating activities		(156,594)	(178,146)

Changes in working capital other than cash used in the reconciliation of resources to cash requirement at Note 4

		2005-06 £000	2004-05 Restated £000
	Note		
(Increase)/Decrease in Stocks <i>less movements in stocks relating to items not passing through the OCS</i>	17	(99)	1,268
Insignia stock removed from the balance sheet		–	(1,366)
(Increase)/Decrease in Debtors <i>less movements in debtors relating to items not passing through the OCS</i>	18	6,447	12,386
Amounts relating to early departure pre-funding		(114)	(165)
Increase/(Decrease) in Creditors (amounts falling due within one year) <i>less movements in creditors relating to items not passing through the OCS</i>	20	5,805	794
Amounts due to the Consolidated Fund for Supply		5,076	(11,581)
Amounts due to the Consolidated Fund for extra receipts		153	3,704
Amounts to settle prior year transfer of functions		–	1,798
Provision established out of prior year creditor		–	609
Other		172	182
Adjustment to cancel reduction in Net Cash Requirement caused by machinery of government transfer of function	24(e)	(1,326)	–
Changes in working capital other than cash	4	16,114	7,629

24(b) Analysis of capital expenditure and financial investment

		2005-06 £000	2004-05 Restated £000
	Note		
Tangible fixed asset additions	14	(18,049)	(19,031)
Intangible fixed asset additions	15	(71)	-
Net movement in creditors – capital accruals	24(a)	472	(4,751)
Proceeds of disposal of fixed assets	24(c)	-	3
Loans to other bodies	16, 24(c)	-	-
Repayments from other bodies	16, 24(c)	21	22
Net cash outflow from investing activities		(17,627)	(23,757)

24(c) Analysis of capital expenditure and financial investment by Request for Resources – see Note 4

	Capital expenditure £000	Loans £000	A in A £000	Net total £000
Request for resources 1:				
Purchase of fixed assets	17,648	-	-	17,648
Income from disposal of fixed assets	-	-	-	-
Income from loan repayments	-	-	(21)	(21)
Net movement in creditors – capital accruals	472	-	-	472
Total 2005-06	18,120	-	(21)	18,099
Total 2004-05 Restated	19,031	-	(25)	19,006

24(d) Analysis of financing

		2005-06 £000	2004-05 Restated £000
	Note		
From the Consolidated Fund (Supply) – current year	22	165,000	216,050
From the Consolidated Fund (Supply) – prior year		-	-
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	20(a)	5,492	-
Prior year inter-departmental balances settled		-	(1,798)
Net financing		170,492	214,252

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

		2005-06 £000	2004-05 Restated £000
	Note		
Net cash requirement	4	(170,076)	(201,945)
From the Consolidated Fund (Supply) – current year	24(d)	165,000	216,050
From the Consolidated Fund (Supply) – prior year	24(d)	–	–
Amounts due to the Consolidated Fund Supply – received in a prior year and paid over		(174)	(3,878)
Amounts due to the Consolidated Fund received and not paid over	5	21	42
Amount to offset reduction in Net Cash Requirement arising on machinery of government transfer of function	24(a)	1,326	–
Prior year inter-departmental balances settled	24(a)	–	(1,798)
(Decrease)/increase in cash		(3,903)	8,471

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

Net programme costs, grants and other current expenditure have been allocated as follows:

	2005-06 £000	2004-05 Restated £000
Objective 1	6,796	8,736
Objective 2	11,764	28,751
Objective 3	39,302	53,752
Objective 4	1,124	1,246
Total	58,986	92,485

The Cabinet Office's capital is employed exclusively for administration purposes. Its distribution amongst objectives is not markedly different from the proportion of the related gross administration cost. Capital employed has therefore been allocated to objectives in proportion to gross administration costs.

26. Capital commitments

	2005-06 £000	2004-05 Restated £000
Contracted capital commitments at 31 March 2006 for which no provision has been made	–	–

27. Commitments under leases

27.1 Operating leases

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

	2005-06 £000	2004-05 Restated £000
Obligations under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	3,235	1,584
Expiry thereafter	4,553	4,981
	7,788	6,565
Other:		
Expiry within 1 year	1,532	225
Expiry after 1 year but not more than 5 years	8,006	10,809
Expiry thereafter	1,019	249
	10,557	11,283

27.2 Finance leases

Obligations under finance leases are as follows:

	2005-06 £000	2004-05 £000
Obligations under finance leases comprise:		
Rentals due within 1 year	2,080	–
Rentals due after 1 year but within 5 years	3,647	–
Rentals due thereafter	–	–
	5,727	–
Less interest element	(235)	–
	5,492	–

28. Commitments under PFI contracts

The National School of Government's (NSoG) residential training centre at Sunningdale is operated under a PFI contract with a term of 30 years from 13 May 2002.

NSoG gave a lease to the private sector partner for the office buildings against which sub leases were granted to the NSoG for their continuing use. These assets are included in Land and Buildings at a carrying value of £2,472k (2004-05: £2,477k).

NSoG also gave a lease for the rest of the site upon which the private sector partner has undertaken an initial capital investment of £12 million in new training facilities.

As a consequence of these agreements –

Deferred asset

A pre-payment was established for the fair value of NSoG's property contributed to the scheme at the commencement of the contract. This deferred asset is recognised as a tangible asset and written off over 15 years. Its value at March 31 2006 is £8,047k (2004-05: £8,778k).

Reversionary interest

A further asset is recognised for the NSoG's residual interest in the training facilities which revert to the NSoG at no cost at the end of the contract. The accruing residual interest, which is being built up over the term of the contract by capitalising part of the contract payments, is recognised as a tangible fixed asset. Its value at March 31 2006 is £5,013k (2004-05: £3,496k).

Whilst these two individual transactions reflect the underlying contractual arrangements, the NSoG retains ownership of the training facilities throughout the period of the contract, the value of which at 31 March 2006 is reflected in the combined carrying value of the deferred asset and reversionary interest of £13,060k (2004-05: £12,274k).

Combined value

The combined carrying value of the office buildings and training facilities disclosed at Note 14 is £15,532k (2004-05: £14,751k).

Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of PFI transactions was £3,038,724 (2004-05: £3,587,527) as disclosed at Note 10 Other administration costs. The payments to which the department was committed during 2005-06, analysed by the period during which the commitment expires, are as follows:

	2005-06 £000	2004-05 £000
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	-	-
Expiry within 11 to 15 years	2,169	2,169
Expiry within 16 to 20 years	-	-
Expiry within 21 to 25 years	-	-
Expiry within 26 to 30 years	-	-
	2,169	2,169

29. Other financial commitments

The department has not entered into any non-cancellable contracts (which are not leases or PFI contracts). The payments to which the department was committed during 2004-05, analysed by the period during which the commitment expired, were as follows:

	2005-06 £000	2004-05 £000
Expiry within 1 year	-	355
Expiry within 2 to 5 years	-	-
Expiry thereafter	-	-
	-	355

30. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Cabinet Office is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

31. Contingent liabilities disclosed under FRS 12

There were no material contingent liabilities at 31 March 2006.

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

There were no other material contingent liabilities at 31 March 2006.

33. Losses and special payments

33(a) Losses Statement

	Total number of cases	2005-06 £000	Restated Total number of cases	2004-05 Restated £000
Total	77	27	61	5,212

33(b) Special Payments

	Total number of cases	2005-06 £000	Total number of cases	2004-05 £000
Total	11	27	28	105

34. Related-party transactions

The Cabinet Office undertakes the majority of its business with other government departments and other central government bodies. The main suppliers to the Cabinet Office in this category in 2005-06 were the Communications Electronics Security Group, the Central Office of Information, the Government Car and Despatch Agency, the Treasury Solicitors and the Ministry of Defence. The main customers of the Cabinet Office in 2005-06 were Her Majesty's Revenue and Customs, the Ministry of Defence, the Home Office, the Department for Work and Pensions and the Department of Trade and Industry.

During the year, no minister, board member, key manager or other related parties has undertaken any material transactions with the Cabinet Office.

35. Third-party assets

The Cabinet Office did not hold funds on behalf of any other parties during the year.

36. Entities within the departmental boundary

The entities within the boundary during 2005–06 were as follows:

Advisory non-departmental public bodies:

Better Regulation Commission
Civil Service Appeal Board
Committee on Standards in Public Life
Senior Salaries Review Body
Security Commission and Security Vetting Appeals Panel
Advisory Committee on Advertising
Advisory Panel on Public Sector Information
Advisory Committee on Business Appointments
House of Lords Appointments Commission
Main Honours Advisory Committee

37. Events after the balance sheet date

On 1 April 2006, DirectGov completed the first phase of the move from the e-Government unit to the Central Office of Information with nearly all staff moving to Central Office of Information control. The move is part of the ongoing programme to ensure effectiveness and efficiency from the Cabinet Office, ensuring functions are placed where they will best serve the public. As part of the phase two move, DirectGov will physically move out of Cabinet Office buildings to Central Office of Information offices. However, the Cabinet Office will continue to be responsible for oversight and management of DirectGov funding until such time a new arrangement is agreed with the Central Office of Information; the future funding mechanism for DirectGov will need to be agreed before the Central Office of Information takes full responsibility. DirectGov income is primarily derived from charging other government departments for its services. 2005-06 income was £11.5 million, expenditure £15 million and headcount for permanent staff was 20. DirectGov is the Government's primary digital service for citizens. It brings together advice, online applications and information in one place, through a variety of channels.

The Media Monitoring Unit transferred out of the Cabinet Office to the Central Office of Information on 1 April 2006. The move is part of the ongoing programme to ensure effectiveness and efficiency from the Cabinet Office by ensuring functions are best placed where they serve the public. Media Monitoring income is primarily derived from charging other government departments for its services. Income in 2005-06 was £1 million. The Media Monitoring Unit is a resource providing 24-hour monitoring of print, broadcast and electronic media for government departments and agencies.

Jim Murphy MP, Parliamentary Secretary, announced to Parliament on 30 March 2006 the intention to establish the National School of Government as a separate non-ministerial department. This will allow the National School of Government to have more autonomy to develop its role as a centre of excellence for learning and development across the public sector. Arrangements are being made to bring about this change. National School of Government income is derived from charging other government departments for its services and expected income for 2006-07 is £31 million.

As a result of the Prime Minister's reshuffle on 6 May 2006, the Cabinet Office was given a new area of responsibility – the Third Sector. The Third sector comprises non-governmental organisations which are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, faith groups, social enterprises, cooperatives and mutuals. A new Office of the Third Sector will be part of the Cabinet Office and run by staff from the Active Communities Directorate in the Home Office and the Social Enterprise Unit in the Department of Trade and Industry. Staff from these units will be transferred to the Cabinet Office to run the office and a new Head of the Office of the Third Sector at Director General level will soon be advertised for. As part of the same reshuffle, a new Social Exclusion Task Force is being established in the Cabinet Office to support Hilary Armstrong and Pat McFadden. Some members of the Social Exclusion Unit in the Department for Communities and Local Government will be transferring to the new Task Force. The functions of the new Task Force will include delivering a Social Exclusion Action Plan to be published in the autumn; developing future strategy and policy on social exclusion; and helping to mobilise stakeholders across government and across the public, private and voluntary sectors in support of the Plan. The financial impact of both is being assessed.

Hilary Armstrong MP, Chancellor of the Duchy of Lancaster, announced to Parliament on 21 June 2006 the transfer out of the Office of Public Sector Information which is to merge with the National Archives under the joint name of the National Archives. This merger will take effect in October 2006 and aims to create a stronger centre for information management in the public sector. Net expenditure for 2006-07 based on 2005-06 results is expected to be approximately £2 million.

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