Presented pursuant to the Government Resources and Account Act 2000, c.20, s6(4)

Department for International Development

Resource Accounts 2005-06

(For the year ended 31 March 2006)

LONDON: The Stationery Office
HC 1450

20 July 2006
£9.00

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Contents

ANNUAL REPORT

1. Coverage of the Accounts

The Department for International Development (DFID) is responsible for leading the Government's efforts to promote international development and eliminate poverty. These accounts cover DFID activities carried out from headquarter offices in London and East Kilbride; and offices in many developing countries. They do not consolidate the results of the limited number of nondepartmental bodies or other organisations for which DFID has policy responsibility (section 2 below).

DFID also pays, from separate funds, pensions and related benefits to certain former overseas civil and public servants. A separate resource account reports expenditure and other information about these pension schemes. DFID accounts include the administrative costs associated with this function.

For public expenditure control purposes, DFID's resource budget includes an attributed cost for the UK share of spending from the budget of the European Communities on development purposes. UK payments to the EC budget are made from the Consolidated Fund. In accordance with the Financial Reporting Manual (FReM) rules on treatment of payments out of the Consolidated Fund, attributed costs for development expenditure are not included in the primary statements. Information about the total resource budget is included in the Management Commentary.

2. Public Sector Bodies

DFID, on behalf of the Government, owns 100 per cent of the issued share capital of the CDC Group plc. In 2004, fund management activities previously carried out by CDC were transferred to a newly formed limited liability partnership (Actis llp). Our accounts include as assets the Government's shareholding in CDC and the cost of its investment in Actis. Both CDC and Actis publish their own annual report and accounts. Note 14 of the accounts provides key summary data.

DFID is also responsible for the following Non-Departmental Public Bodies.

- Commonwealth Scholarship Commission
- Crown Agents Holding and Realisation Board
- Overseas Service Pensions Scheme (OSPS) Advisory Board

None of these bodies employ any staff or have any facilities. The OSPS Advisory Board was wound up on 28 February 2006 as a result of the OSPS fund ceasing to operate separately. Details are in the 2005-06 Overseas Superannuation Resource Account.

3. Other Reporting

DFID publishes a Departmental Report each year that supplements these accounts and provides information to Parliament and the public on DFID's activities. The 2006 Report was published in May 2006 (Cm 6824). It gives details of DFID's work and key developments in 2005-06, together with agreed budget allocations for the period to 2007-08. A further update on performance will be provided in the Autumn Performance Report (planned for December 2006).

Each year DFID also publishes "Statistics on International Development" which contain a detailed breakdown of development expenditure. The next report, including 2005-06, will be published in October 2006.

4. Ministers

During the year to 31 March 2006, DFID's Ministers were:

Hilary Benn, Secretary of State for International Development

Gareth Thomas, Parliamentary Under-Secretary of State for International Development

Baroness Valerie Amos, Leader of the House of Lords, spoke on DFID business in the House of Lords

5. Management Commentary

Aims and objectives

DFID's aim is the elimination of poverty. It works with developing countries and the international community to achieve eight "Millennium Development Goals" (MDGs), endorsed at the UN Millennium Summit in September 2000 as milestones of global progress in tackling poverty. The Goals are to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

Legislation

The International Development Act 2002 allows the Secretary of State for International Development to provide development assistance for sustainable development and welfare; in doing so he has to be satisfied that the assistance is likely to contribute to poverty reduction. The Act allows him to provide support for development awareness and advocacy work, and to use a wider range of financial instruments including securities and guarantees; it also provides for continued assistance to the UK's Overseas Territories and allows DFID to provide rapid humanitarian assistance.

We work to achieve the MDGs by providing money and technical support to poor countries directly, or through engagement with multilateral agencies, and also by seeking to ensure that the international system, e.g. trade rules, works more effectively for poor people. DFID also provides assistance to victims of natural or man-made disasters.

Our analysis of the challenges of eliminating poverty and globalisation, and our policies to respond to these, were set out in two White Papers in 1997 and 2000. A third White Paper is being published in July 2006.

Performance measurement

We measure the *resources we use for development* in two main ways:

- Spending from agreed resource budgets as reported in these accounts
- UK Official development assistance (oda), including as a proportion of UK national income (gni).

DFID's final resource budget (Departmental Expenditure Limit) for 2005-06 was £4.5 billion, increased from £3.8 billion in 2004-05; the budget is planned to increase to more than £5.3 billion by 2007-08. This is an average annual increase of 9.2 per cent in real terms over the current three year spending review period.

Official development assistance (oda) is a measure agreed by members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development. Net costs reported in these accounts are a major part of oda. However, oda also includes items not reported in these accounts (e.g. equity investments made through CDC and ECGD debt relief) and is measured by calendar rather than financial years.

There is a longstanding target that donors' oda should reach 0.7 per cent of gni. In 2005, UK oda was £5.9 billion, 0.48 per cent of gni. This includes significant one-off amounts (not included in these accounts) for debt relief to Nigeria (£1.1 billion) and Iraq (£673 million). UK oda is set to increase to nearly £6.5 billion a year by 2007-08; the Government has committed to increasing total oda to 0.7 per cent of gni by 2013.

Outputs and outcomes

We measure *the results we aim to achieve* and we manage our performance against Public Service Agreement (PSA) objectives and targets. The 2005–08 PSA has six objectives:

1. Reduce Poverty in Sub-Saharan Africa.

2. Reduce Poverty in Asia.

3. Reduce Poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa.

4. Increase the impact of the international system in reducing poverty, preventing conflict and responding effectively to conflict and humanitarian crises.

5. Develop, support and promote policy that assists poverty reduction and the achievement of the MDGs.

6. Improve the impact and effectiveness of DFID's bilateral programme.

In Africa and Asia we assess progress towards the MDGs in 25 priority "PSA countries".

Annex 3 of the Departmental Report provides more detail on the 2005-08 PSA objectives and targets and a report on progress. The Statement of Operating Costs by Departmental Aim and Objectives in the accounts shows how much we spent in 2005-06 against each of the main objectives.

We have a target of spending at least 90 per cent of our bilateral expenditure in low income countries. In 2005-06, 91 per cent of country-specific bilateral expenditure (excluding humanitarian assistance) went to low-income countries.

Our management units (Divisions) are closely aligned to the PSA objectives. Note 8 shows the average number of staff who worked on each objective in the year. The 2007 Comprehensive Spending Review will consider a revised PSA for 2008-11.

Delivery

We work with a wide range of partners and rely on a wide range of official, commercial and nongovernmental delivery agents to achieve our aims. We regularly assess the performance of delivery agents and consider whether our partnerships and the channels we use are still the right ones and whether we should support different, or help create new, institutions.

In 2005, donors and partner countries agreed the "Paris Declaration on Aid Effectiveness". This committed donors and partners to act to improve the way aid is delivered. It set targets for the international community for improvement in aid effectiveness and a monitoring process for this. The way we work with partner governments and other donors will over time be based on and measured against the agreed principles of the declaration: these are ownership, alignment, harmonisation, results based management and mutual accountability.

Risks to delivery

There are significant risk factors which will affect whether or not the contributions we make will produce the results we aim to achieve. The main risks to the achievement of our goals include macro-economic trends in developed and developing countries and economic shocks, the impact on developing countries of climate change and conflict; major public health trends which affect development (such as avian flu or HIV/AIDS); and any potential weakening of commitment to poverty elimination by partner governments. We work often in difficult environments and recognise that in some partner countries there will be weaknesses in internal control and the possibility of fraud or corruption. We identify and monitor these and other risks; the Management Board reviews how we should react to them, or respond where we can mitigate the risk; and systems for monitoring and managing risk are embedded at all levels in the organisation.

We also monitor and manage the risks arising from weakness or failure in DFID's own processes and systems, e.g. IT and financial. The Statement on Internal Control provides more detail on the management of risk.

Current and future trends

We continue to plan our activities in response to progress against the Millennium Development Goals (MDGs). International commitment to the Goals was renewed in 2005 during the UK Presidency of the G8 and the EU and through the Millennium Review Summit. Current progress on the MDGs is reported at *www.developmentgoals.org* . The most serious challenge continues to be in Africa which as a whole needs to achieve 7 per cent economic growth per year if it is to attain the MDGs (current growth rates average 4.1 per cent in our PSA countries).

We share a commitment by rich and poor countries to work together to deliver the MDGs. In 2005 the G8 agreed to double aid worldwide by 2010, with half of the additional resources going to Africa; to cancel all debts owed by the world's poorest countries to the International Monetary Fund (IMF) and the concessional arms of the World Bank and the African Development Bank; and EU Member States agreed new spending targets which will double aid to over US$80 billion by 2010, and increase it further to reach 0.7 per cent of gross national income by 2015. A new EC development policy was also agreed giving priority to low income countries.

A key indicator in 2006 will be the progress on the Doha round of trade negotiations in the World Trade Organisation (WTO).

Financial Review

<u>Resource budgets</u>

DFID has two separate budget allocations within the total amount of public expenditure which are controlled through setting of Departmental Expenditure Limits (DEL). The two budgets are for net resource (current) spending (including a ring-fenced amount for administration costs) and for net capital expenditure. DFID has a separate budget allocation within the part of public expenditure controlled as Annually Managed Public Expenditure (AME).

The following table shows the changes in these budgets between allocations at April 2005 and final budgets for 2005-06.

Table 1: 2005-06 Changes in budgets			
£ million	**Resource DEL***	**Capital DEL**	**AME**
Original	**4,473.0**	**30.0**	**61.5**
Policy changes (redefinitions)	(0.8)		
Take–up of End Year Flexibility	50.0	12.0	
Transfers from other departments[1]	2.0		
Transfers to other departments[1]	(20.6)		
Other and classification changes	(5.6)		
Changes in forecast AME	–	–	8.1
Final	**4,498.2**	**42.0**	**69.6**
* including depreciation			

1. The budget includes all of the original budget for the Africa Conflict Pool: during the year resources are transferred to FCO and MoD and spent through their Estimates; DFID in turn receives transfers from FCO which holds the original budget for the Global Conflict Pool

The resource DEL budget is divided between amounts voted in Estimates and non-voted amounts; the capital DEL budget and the AME budget are both voted in the Estimates. Outturn against the components of the DEL budget is shown in Table 2 below. Note 2 to the accounts is a detailed breakdown and comparison of outturn against Estimates provision for voted resource DEL and AME. Outturns shown below may differ from those shown in DFID's 2006 Departmental Report and the Public Expenditure Outturn White Paper which were based on forecasts made before the end of the financial year.

Table 2: 2005-06 Final DEL budgets and outturn			
£ million			
DEL	**Budget**	**Outturn**	**Variance**
Voted Resource DEL: RfR 1 (Note 2)	3,821.0	3,799.1[4]	21.9
Voted Resource DEL: RfR 2 (Note 2)	48.1	32.9[5]	15.1
Non–voted DEL (EU attribution)[1]	627.0	657.0	(30.0)
Other adjustments[2]	(2.5)	(2.7)	0.2
Unallocated reserve	4.7	–	4.7
Total Resource DEL	**4,498.2**	**4,486.4**	**11.8**
of which:			
Administration budget (Note 3(b))	*239.0*	*221.9*	*17.1*
Capital DEL (voted)	**42.0**	**20.2**	**21.8**
Less: Depreciation	(22.0)	(21.3)	(0.7)
Total DEL[3]	**4,518.2**	**4,485.3**	**32.9**
AME (voted RfR 1) (Note 2)	**69.6**	**71.4**	**(1.8)**

1. Latest forecast; the final charge to DEL budget will be based on later EU reports.
2. Includes receipts paid to the Consolidated Fund which relate to expenditure.
3. Depreciation, which forms part of resource DEL is excluded from total DEL since capital DEL includes capital spending, therefore to include depreciation of the assets purchased would be double counting.
4. This is £77 million (2 per cent) more than the Estimated Outturn for 2005-06 in the 2006 Departmental Report (Annex 1 Table 1). Actual spending in Africa and the rest of the World was higher than the end-year forecast, more than offsetting less spending than forecast in Asia and on policy work.
5. £6.2 million (15 per cent) less than the Estimated Outturn for 2005-06 in the 2006 Departmental Report.

Operating costs: Poverty Elimination

- Spending in the year increased in line with the increased budget provision agreed in the 2004 Spending Review. Total voted resource expenditure on poverty elimination increased by 20 per cent to £3.9 billion (2004-05: £3.2 billion). The agreed non voted deduction for aid spending by the EU was £657 million (2004-05: £607 million).
- The under spend against budget for Poverty Elimination (Request for Resources 1) was 0.5 per cent of the Estimate compared to 3 per cent in 2004-05. This is a result of improved in-year budget management and year end monitoring.
- £1,129 million, 30 per cent of total resources, within bilateral programmes was spent in Africa, meeting our aim of spending £1 billion in Africa by 2005-06.
- Capital charges increased by 21 per cent, predominantly due to the revaluation of investments in International Financial Institutions (see below).
- Administration costs increased by 5 per cent from 2004-05. Salary costs within administration costs increased by 12 per cent, resulting from the annual indexation to salaries and increased employer pension contributions; non-salary costs were 1 per cent down on 2004-05.
- Total staff costs, including staff attached full time to development projects and within conflict prevention RfR2, increased by 9 per cent. Costs per staff member (average employed in the year) were £36,580 (2004-05: £32,610).

Operating Costs: Conflict prevention

- Two joint Conflict Prevention Pools were set up in 2001-02 with the Foreign and Commonwealth Office and Ministry of Defence; these are subject to joint decision-making but with each department being accountable for those projects within its sphere of responsibility. Spending is recorded under Request for Resources 2. This programme also includes spending on the Post-Conflict Reconstruction Unit which began work during the year. Total spending by DFID was £33 million (2004-05: £44 million) against an Estimate of £48 million.

Capital expenditure and Balance Sheet movements

- In 2005-06 we spent £30 million on additions to fixed assets (2004-05: £31 million) and added £25 million to loans and investments (2004-05: £35 million). We made a significant fixed asset investment in IT equipment and systems which will contribute to improved effectiveness and efficiency.
- At 31 March 2006, DFID's fixed assets were valued at £83 million (2004-05: £75 million). This represents our administrative assets and approximately 50 per cent relates to our freehold and leasehold assets. Assets used directly in the programme delivery of our business are defined as programme, or project assets and do not appear on our Balance Sheet.
- Overall, net assets in the Balance Sheet increased by 15 per cent (£331 million). This was primarily a result of the revaluation of the balance sheet value of shares in International Financial Institutions (IFIs). This increase in investments of 18 per cent (£457 million) was derived from equity and exchange rate movements; the largest change being in investments in the World Bank (IBRD) and the European Bank for Reconstruction and Development (EBRD). Note 14 gives details.
- Offsetting this partly was a decrease in prepayments by 35 per cent (£37 million). This reflects the change in focus of funding to mechanisms such as Poverty Reduction Budget Support (PRBS) which under our accounting policies are expensed at point of payment.
- Creditors due within one year have reduced by 14 per cent (£72 million) resulting from Promissory Notes movement to long term creditors and a reduction in the Consolidated Fund creditor.
- We report contingent liabilities as required under Financial Reporting Standard (FRS 12), see Note 28 to the accounts. For the purpose of parliamentary accountability we also report contingent

liabilities which would not be shown under FRS 12 since the likelihood of a transfer of economic benefit is remote. These liabilities amount to £7,227.9 million (2004-05: £6,730.5 million).

Variances

Over and under spends against the Parliamentary Estimates are shown in Note 2 to the accounts. Over spends in some sections are offset by savings elsewhere in the Estimate. The reasons for variances over 10% were as follows:

Eliminating Poverty in Poorer Countries (DEL)

- Rest of the World (25 per cent over Estimate). This is mainly due to costs of the Iraq programme, in particular security costs. DFID's share of Iraq security costs is negotiated with the Foreign and Commonwealth Office; forecasts at the time of the Spring Supplementary Estimate were subsequently updated.
- Innovative Approaches to Development (15 per cent under Estimate). This is a technical under spend; Estimate provision was made in Section E for payments to the Global Environment Fund; however in line with a revised view of the appropriate objective for this expenditure, spending is reported in Section D.
- Gibraltar Social Insurance Fund (12 per cent under Estimate). The Estimate provision is based on a forecast for payments to beneficiaries of the Gibraltar Social Insurance Fund. Provision was reduced by £1.325 million at Winter Supplementary to reflect lower levels of payments in the first part of the year; however the decline in payments in the second half of the year was greater than forecast.

Conflict Prevention (DEL)

- Africa (39 per cent under Estimate). Slippage in a number of DFID approved projects within the Africa Conflict Pool meant funds allocated were unspent. Significant under spends occurred on projects in the Democratic Republic of the Congo, Sudan, and on Southern Africa regional projects.
- Global (13 per cent under Estimate). This is mainly due to DFID's support for UN conflict prevention activity being lower than forecast at Spring Supplementary. A number of projects proceeded slower than expected.
- Post Conflict Reconstruction Unit (50 per cent under Estimate). Programme spending arises mainly when the Post Conflict Reconstruction Unit is deployed, in line with Ministerial decisions. Provision was made to fund deployment in Afghanistan, however this occurred slightly later than planned and costs expected in 2005-06 will now fall in 2006-07.

Net Cash Requirement

The Outturn Net Cash Requirement in the Statement of Parliamentary Supply was 5 per cent below Estimate. This is mainly due to Estimate provision being made for the possible draw down on Promissory Notes at the end of the financial year; in the event these drawings were not made.

Long term and future commitments

In the course of its business, DFID discusses and formalises arrangements with partners and agents for projects and programmes which cover payments over a number of years. These are subject to various terms and conditions; transactions arising from these arrangements are recognised in these accounts when the transfers take place or conditions of grant are met.

Poverty Reduction Budget Support (PRBS)

We have actively promoted and followed the principles now set out in the Paris Declaration, including improving the predictability of aid. We also expect to provide more of our aid in future years as Budget Support and we try to give partner governments high level assurances that resources will continue to be provided so long as they are committed to policies which will eliminate poverty, observe human rights and continue to have effective financial management. Chapter 6 of the Departmental Report describes this policy in more detail and provides figures for the PRBS we have indicated to countries we plan to provide: the figures indicated are £426 million in 2006-07, £393 million in 2007-08 and £277 million in 2008-09.

Debt relief

Following a UK proposal agreed at the G8 summit in 2005, the World Bank and African Development Bank have agreed, under the Multilateral Debt Relief Initiative (MDRI), to cancel the debts of certain Highly Indebted Poor Countries which have met relevant conditions. Donors have agreed to provide resources in future years to the International Development Association (IDA) and African Development Fund to replace the inflows the institutions would otherwise have received as debt service. In May and June 2006 Parliament authorised DFID to provide £592 million to IDA and £79 million to the African Development Fund over the years 2006-2016 for this purpose. Transfers to IDA and the AfDF will be recorded in these accounts as promissory notes are deposited or payments are made. Other amounts within the total authorised by Parliament will, from 2006-07, be included in contingent liabilities with other amounts for agreed replenishments which have not yet resulted in deposit of promissory notes.

International Finance Facility for Immunisation

In September 2005, the UK and other donors agreed to provide resources to an International Finance Facility for Immunisation (IFFIm); this facility will front-load support to immunisation programmes by using funds borrowed on international markets with repayment guaranteed by government pledges. The legal agreements for IFFIm are expected to be signed in July 2006. The UK has agreed to make payments over the period 2007-2025 of up to £1.3 billion (nominal value; about £700 million in present value). An expense will be recognised in the resource account for 2006-07 and in subsequent years, for the amount of UK funds irrevocably committed to pay back borrowings made on behalf of IFFIM.

The Government may also announce intentions for spending which will in due course be realised through more specific arrangements with partners and delivery agents. As an indication of the type and size of these targets, DFID has announced that we plan to use resources already allocated in the 2004 spending review:-

- to spend £1.25 billion per year in Africa by 2007-08;
- to spend £1.5 billion over three years to combat HIV and AIDS;
- to have an oda/gni ratio of 0.47 per cent in 2007-08.

Budgets and spending plans for the years from 2008-09 to 2010-11 will be decided in the 2007 Comprehensive Spending Review (CSR). However, in April 2006 the Chancellor of the Exchequer and Secretary of State for International Development announced that the UK would spend at least £8.5 billion on aid for education over the next ten years; by 2010 annual spending on education should be over £1 billion. The Government also plans to spend £100 million per year by 2010 on Aid for Trade. Other indications of future plans are in the White Paper published in July 2006.

There were no other significant new risks or uncertainties such as potential environmental liabilities or contingent liabilities, during the year or subsequently, that materially affect DFID's future position.

Future business developments

The 2006 White Paper, published in July 2006, sets out our objectives over the next few years to:

- accelerate progress against the Millennium Development Goals, help countries, particularly those that risk falling ever further behind the rest of the world, do better in bringing security and managing conflict, stimulate rapid, fair and sustainable growth, and deliver basic services for all;
- improve governance; help governments and citizens make politics work for the poor, and work to ensure the international economy supports country development;
- address natural resources issues and climate change in developing countries; and
- improve the effectiveness of international institutions to ensure the international system is fit for the 21st century.

In parallel, we prepared for the 2007 CSR by carrying out a series of reviews designed to maximise the impact and effectiveness of our programme spending and improve operational efficiency in Corporate Services, policy and operational work and in country office management. The findings of these reviews will inform the CSR discussion.

Financial Instruments

The department's overall approach to the management of risk is described in the Statement on Internal Control. The department is funded from Parliamentary Supply with funds provided through Paymaster and therefore has no significant exposure to either liquidity or cash-flow risk. The department's equity interest in CDC Group plc is subject to market performance and currency risk: numerical disclosures and a description of measures taken to manage these risks are in CDC's own financial statements. DFID's ownership interest in International Financial Institutions and part of the loan portfolio are denominated in foreign currencies and subject to currency risk. In line with HMG policy, DFID does not undertake any hedging or derivative transactions to manage this risk. Numerical disclosures required by Financial Reporting Standard (FRS) 13 are included in relevant notes showing the value of financial instruments. As permitted by FRS 13, these disclosures do not cover short-term debtors or creditors.

Payment of Suppliers

DFID is committed to the Better Payment Practice Code. In line with Government policy, DFID's procurement procedures comply with BS 7980, the British Standard for achieving good payment performance in commercial transactions. Our aim is to pay bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of the goods or services or the presentation of a valid invoice. The percentage of invoices settled within the 30 day period in financial year 2005-06 was 97 per cent. No payments in respect of interest were paid during 2005-06 under the Late Payment of Commercial Debts (Interest) Act 1988.

Efficiency

Our target is to achieve £420 million of sustainable efficiencies by the end of 2007-08. We will do this by spending DFID money in more effective ways, influencing others to do so, and increasing the quality of our projects and programmes, as well as making more traditional savings in procurement and administration costs. Efficiency gains achieved by 31 March 2006 were £163.8 million; £6.3 million of these are real cash. Further details of targets and outturn are in Annex 8 of the Departmental Report.

We aim to reduce headcount (UK-based staff) from 1,883 in 2004-05 to 1,610 at 31 March 2008. Headcount for 2005-06 was 1,801, ahead of the interim milestone of 1,820. We have a similar target for Staff Appointed in Country (SAIC) to reduce headcount from 1,162 to 1,038. Latest figures indicate that this target has already been achieved. We also exceeded, by 3, our target of relocating a further 85 posts from London to East Kilbride. Staff were advised that voluntary early departure terms would be available to a limited number of staff in 2005-06, 2006-07 and 2007-08. Within 2005-06, 20 staff agreed departure dates under this scheme. Costs of £2.8 million for early departure costs, where arrangements were agreed by 31 March 2006, are included within administrative expenses.

There will be continuing pressures on administration costs as we combine scaling up of programmes with headcount reductions. Examples of how efficiencies will be met include the introduction of ARIES, our new management information system, and increased sharing of services with, for example, the FCO and British Council.

6. Staffing and related issues

We continue to have good employee relations and we are working hard to maintain these. In 2005 we published a DFID-wide People Strategy focusing on world class leadership, professionalism and career development for all; healthy, safe and inclusive workplaces worldwide, and smart people processes that support the business. We have introduced new people management practices including, from March 2006, a new Performance Management System.

We are committed to recruiting people with the right attributes (skills, knowledge and behaviours) in an efficient and responsive way. All appointments are made on merit on the basis of fair and open competition in accordance with the Civil Service Commissioners' Recruitment Code.

We have an equal opportunity policy that there shall be no discrimination against staff on grounds of gender or gender re-assignment, marital status, race, colour, nationality, ethnic origin, religion or belief, disability, sexual orientation, working pattern, age or background. Employment, promotion and recruitment are based solely on merit. Our Corporate HR department is responsible for developing and promoting internal equal opportunities policies and acting as an interdepartmental liaison with the Cabinet Office. Line Managers are responsible for ensuring that their staff are aware of the diversity and equal opportunities policy and that there is no unlawful discrimination or harassment of any kind, or contravention of DFID's policies on discrimination.

We progressed diversity initiatives in 2005-06. A Diversity Champion at Management Board level provides leadership on diversity and encourages wider accountability for the agenda. We provided diversity awareness training to most staff and are now providing follow-up training that targets specific development needs and enhances skills around managing diversity. In 2005-06, we established staff networks for women, disabled and ethnic minority staff.

We continue to meet our obligations to disabled staff under the Disability Discrimination Act 1995. 49 UK based staff (2.8 per cent of the total) have declared themselves as disabled. We support the Civil Service wide bursary scheme organised by the Cabinet Office for staff with disabilities to help develop their skills and competences. A DFID Disability Group ensures we provide appropriate support to disabled people; it is making progress against four key areas: employability, access, culture change and integrating diversity into our mainstream programme work. We have set up a Disability Forum Network (DFN) to allow staff to discuss disability issues in an open and comfortable atmosphere; the DFN and Human Resources Division will be taking steps to raise disability awareness in DFID.

Details of arrangements for pension provision for employees are given in Note 8 to the Accounts. Pension arrangements for Ministers and senior staff are set out in the Remuneration section of this Report.

Health and Safety

We are committed to providing a safe and healthy workplace and work environment for all staff, to helping all staff understand their duty of care, to act appropriately at all times and to achieving high standards of health and safety throughout our offices.

The Permanent Secretary recognises and accepts responsibility for providing a healthy workplace. Our policy complies with the Health and Safety at Work Act 1974. We have a Health and Safety Committee which consists of representatives of management and staff. This exists to promote and develop measures to ensure health and safety at work and to check their effectiveness.

Directors, Heads of Department, Heads of Overseas Offices, managers, supervisors and staff are required to give due care and attention to matters concerning the health, safety and welfare of those who may be affected by their acts, omissions or operational decisions, while working for or on behalf of DFID, by assessing the impact of their decisions and taking appropriate action to mitigate any identified issues or hazards. Every member of staff is expected to take reasonable care for the health and safety of themselves and of their colleagues, or other persons who may be affected by their actions at work and to co-operate with DFID managers to enable them to fulfil statutory requirements.

Environmental Policy

We are committed to the targets set out in the Framework for Sustainable Development on the Government Estate. We have met the travel targets for fleet cars and reducing single car occupancy, and the targets for water usage and renewable energy. We have also published delivery plans for all the targets and Waste, Procurement and Social Impact Strategies; the London and East Kilbride offices both have 100 per cent green electricity. Both offices also use waste contractors who re-cycle at least 75 per cent of all office waste, and at the East Kilbride office we have conducted an audit of local habitats and species and produced a Biodiversity Action Plan.

We are also currently investigating the most appropriate renewable technologies for DFID, such as a Combined Heat and Power Plant, Solar Panels and even a Wind Turbine at our East Kilbride office. We have signed up to the Carbon Management Programme, working closely with the Carbon Trust to consider further opportunities to improve our energy efficiency.

The design for refurbishing the East Kilbride office earned an “Excellent” BREEAM rating (Building Research Establishment Environmental Assessment Methodology). The office has a range of green features including high efficiency boilers, natural ventilation for office areas and movement sensors replacing light switches.

Both UK offices have implemented Environment Management Systems which we are currently rolling out to our principal overseas offices. All country offices are encouraged to adopt best environmental practice.

The recent Sustainable Development in Government Report ranked DFID fifth overall out of 20 Government Departments against the full range of energy, water, waste, travel, procurement, estate management, biodiversity and social impacts targets.

7. Corporate Governance

Permanent Head of Department and Management Board

Suma Chakrabarti, Permanent Secretary and Principal Accounting Officer, is the official Head of Department. He was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service, with the agreement of the Secretary of State for International Development. His appointment to DFID is an extensible term appointment under the terms of the Senior Civil Service Contract. Provisions for termination are those in Chapter 11 of the Civil Service Management Code.

DFID has a 6-member Management Board:

Suma Chakrabarti, chair (appointed 2002)

Mark Lowcock, Director General, Corporate Performance (appointed 2002)

Masood Ahmed, Director General, International and Policy (appointed 2002)

Nemat Shafik, Director General, Country Programmes (appointed as non-executive director 2002-2004, as executive director general 2004)

Bill Griffiths, Non-Executive Director and chair of Audit Committee (appointed 2002)

Helen Ghosh, Non-Executive Director (appointed 2004)

Helen Ghosh was formerly Director General, Corporate Services, HM Revenue and Customs; during the year she was appointed Permanent Secretary, Department of Environment Food and Rural Affairs.

In April 2006, Masood Ahmed left the Management Board to become Director of External Relations of the International Monetary Fund. Mark Lowcock succeeded him as DG International and Policy; Sue Owen, formerly Director of Operations at HM Treasury, was appointed following an open competition as DG Corporate Performance.

The Permanent Secretary appoints members to the Management Board. Those who are also civil servants serve under the terms of the Senior Civil Service Contract; provisions for termination are set out in Chapter 11 of the Civil Service Management Code.

Remuneration of Management Board members is determined in line with the recommendations of the Senior Salaries Review Body. Details of the remuneration of Ministers and most senior managers are given in the Remuneration Report below.

DFID observes the Code of Good Practice on Corporate Governance in Central Departments. The Management Board operates collectively to review the performance of DFID. It has agreed objectives and plans its work on a cycle so that it regularly considers the strategic policies and resource allocation decisions, and management of risk, on which it is advised by the Audit Committee.

Each quarter, the Board receives reports on the performance of the department as a whole and of key operational units against agreed objectives, and of financial budgets and forecasts for the year as a whole.

The Board is supported by four sub-committees: for Audit, Human Resources, Development Policy and Senior Civil Service (SCS) Management. Each of the Committees has agreed terms of reference and is chaired by a member of the Board. The Board receives and reviews annual reports from each Committee about its work.

The Board reviews its performance and those of its sub-committees each year. In 2005 this involved a review by consultants Egon Zehnder. Their report was overwhelmingly positive and reported, among other things, that the Board was: "more effective than most public and private sector boards" they have reviewed.

Staff have the opportunity to observe meetings of the Board and its Committees, other than the SCS committee which discusses sensitive HR issues (Egon Zehnder noted that this was the only Board they had assessed that allowed observers in this way). Country offices are encouraged to view meetings via video facilities; and the Board's annual review of Director's Delivery plans are web cast. Except where confidential, papers considered by the Board, and minutes of meetings are published on DFID's intranet and on the DFID external web pages.

Members of the Board are appointed to provide an appropriate range of skills and experience. The Egon Zehnder report highlighted the strength of the Board in terms of cohesiveness and complementary skills of its members, and in this context noted the importance of succession planning. Succession arrangements are kept under review. New members of the Board are appointed through open and transparent procedures. Given the small size of the Board, induction programmes for new members are tailored to individual needs, based on past experience.

Board members are expected to notify and register any existing or potential conflicts of interest with the Board Secretary.

DFID considers that the two non-executive members are appropriately independent of the Department. Non-executive Directors are given terms of reference as part of their contract, informed of the processes for performance appraisal and given a full induction programme. The Permanent Secretary has periodic meetings with the Non-Executive Directors.

DFID believes that the Board is adequately configured to deal with financial management issues, including members with skills in the measurement and management of performance and financial resources. One of the Non-Executive members of the Board, who chairs the Audit Committee, is a qualified accountant with significant private sector experience. DFID's Finance Director, at SCS pay band 2, is a qualified accountant: though not a member of the Management Board, he attends all meetings where there are financial implications.

The Audit Committee includes another non-executive member who is an audit partner in a major accountancy practice. The Finance Director also attends Audit Committee meetings. The Committee functions in accordance with the Audit Committee handbook and regularly considers internal control, risk and financial reporting. As part of its work, the Committee decides the programme of, and considers reports from, the Internal Audit Department which operates in accordance with Government Internal Audit Standards.

8. Remuneration Report

Appointments

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 normally hold appointments which are effectively open-ended until they reach the normal retiring age of 60. The notice period given by DFID follows central Cabinet Office guidance on Senior Civil Service contracts. Unless otherwise agreed, members of the Senior Civil Service are required to give 3 months written notice if they wish to terminate their employment. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Separate arrangements apply to:

- Masood Ahmed, on secondment from the International Monetary Fund commenced 1 July 2003 until 30 April 2006: he was paid directly by DFID.
- Nemat Shafik, on a two year secondment from the World Bank commenced on 1 October 2004. Nemat remains on World Bank terms and conditions during the period of the secondment, and receives a salary directly from the World Bank. DFID reimburses these costs to the World Bank on a quarterly basis.
- Liz Davis, on a four year secondment from the Cabinet Office commencing 19 July 2004.

Remuneration

The pay and conditions of senior civil servants are set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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 takes account of:

- 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.

Remuneration

Ministers	2005-06		2004-05	
	Salary (£)	Benefits in kind (to nearest £100)	Salary (£)	Benefits in kind (to nearest £100)
Hilary Benn *Secretary of State*	74,902	–	72,862	–
Gareth Thomas *Parliamentary Under Secretary of State*	29,491	–	28,688	–

The above figures show only payments made by the Department and recorded in these accounts. For Ministers in the House of Commons, Departments bear only the cost of the additional Ministerial remuneration; salary for their services as an MP (£59,095, 2004-05: £57,485) and various allowances to which they are entitled are borne centrally.

Officials	2005-06		2004-05	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Suma Chakrabarti *Permanent Secretary*	165–170	–	155–160	–
Masood Ahmed *Director General*	215–220	–	215–220	–
Mark Lowcock *Director General*	105–110	–	95–100	–
Nemat Shafik *Director General*	145–150	–	65–70 (125–130 full year equivalent)	–
Martin Dinham *Director*	115–120	–	115–120	–
Graham Stegmann *Director*	100–105	–	95–100	–
Dave Fish *Director*	95–100	–	90–95	–
Jim Drummond *Director*	95–100	–	90–95	–
Peter Grant *Director* (until 23/6/05)	20–25 (80–85 full year equivalent)	–	80–85	–
Sharon White *Director*	85–90	–	75–80	–
Richard Calvert *Director*	80–85	–	75–80	–
Liz Davis *Director*	80–85	–	45–50 (70–75 full year equivalent)	–
Charlotte Seymour–Smith *Director*	100–105	–	20–25 (85–90 full year equivalent)	
Adrian Wood *Acting Director* (from 31/1/05 – 14/10/05)	55–60 (90–95 full year equivalent)	–	15–20 (85–90 full year equivalent)	–
John Burton *Acting Director* (from 1/2/05 – 22/8/05)	35–40 (75–80 full year equivalent)	–	10–15 (70–75 full year equivalent)	–
Joy Hutcheon *Director*	75–80	–	10–15 (70–75 full year equivalent)	–
Amanda Rowlatt *Director* (from 1/8/05)	45–50 (80–85 full year equivalent)	–	N/A	N/A

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

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

Pension Benefits

Ministers	**Accrued pension at age 65 as at 31/3/06**	**Real increase in pension at age 65**	**CETV at 31/3/06**	**CETV at 31/3/05**	**Real increase in CETV**
	£000	£000	£000	£000	£000
Hilary Benn *Secretary of State*	0–5	0–2.5	46	32	7
Gareth Thomas *Parliamentary Under Secretary of State*	0–5	0–2.5	14	9	2

Officials	**Accrued pension at age 60 as at 31/3/06 and related lump sum**	**Real increase in pension and related lump sum at age 60**	**CETV at 31/3/06**	**CETV at 31/3/05**	**Real increase in CETV**
	£000	£000	£000	£000	£000
Suma Chakrabarti *Permanent Secretary*	40–45 plus lump sum of 120–125	2.5–5 plus lump sum of 7.5–10	683	488	42
Masood Ahmed #1 *Director General*	–	–	–	–	–
Mark Lowcock *Director General*	25–30 plus lump sum of 75–80	2.5–5 plus lump sum of 7.5–10	386	256	38
Nemat Shafik #1 *Director General*	–	–	–	–	–
Martin Dinham *Director*	40–45 plus lump sum of 130–135	0–2.5 plus lump sum of 0–2.5	952	755	16
Graham Stegmann *Director*	35–40 plus lump sum of 110–115	0–2.5 plus lump sum of 2.5–5	866	693	25
Dave Fish *Director*	40–45 plus lump sum of 130–135	0–2.5 plus lump sum of 2.5–5	1,020	815	31
Jim Drummond *Director*	35–40 plus lump sum of 90–95	0–2.5 plus lump sum of 0– negative 2.5	703	540	19
Peter Grant #2 *Director* (until 23/6/05)	15–20 plus lump sum of 45–50	0–2.5 plus lump sum of 0–2.5	272	206	7
Sharon White *Director*	10–15 plus lump sum of 35–40	0–2.5 plus lump sum of 0–negative 2.5	165	114	(1)
Richard Calvert *Director*	20–25 plus lump sum of 65–70	0–2.5 plus lump sum of 5–7.5	350	235	33
Liz Davis *Director*	15–20 plus lump sum of 50–55	2.5–5 plus lump sum of 7.5–10	342	226	46
Charlotte Seymour–Smith *Director*	15–20 plus lump sum of 40–45	2.5–5 plus lump sum of 2.5–5	349	226	55
Adrian Wood #3 Acting *Director* (from 31/1/05–14/10/05)	30–35 plus lump sum of 85–90	0–2.5 plus lump sum of 0–2.5	811	692	23
John Burton #4 Acting *Director* (from 1/2/05–22/8/05)	15–20 plus lump sum of 50–55	2.5–5 plus lump sum of 7.5–10	252	157	39
Joy Hutcheon *Director*	10–15 plus lump sum of 40–45	2.5–5 plus lump sum of 7.5–10	195	113	37
Amanda Rowlatt *Director* (from 1/8/05)	20–25 plus lump sum of 65–70	0–2.5 plus lump sum of 2.5–5	332	236	10

#1 on secondment to DFID and not a member of the Civil Service Pension Scheme arrangements

#2 CETV at 23/6/05

#3 CETV at 14/10/05

#4 CETV at 22/8/05

Ministerial Pensions

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

Cash Equivalent Transfer Value (CETV)

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

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The figure for real increase in the value of the CETV reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the 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.

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 (CETV)

The nature of CETVs is as described above. The 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 this disclosure relates. The CETV figures, and from 2004-05, 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 CS 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.

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.

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

9. AUDITORS

These accounts are audited by the Comptroller and Auditor General. Through his staff, DFID's Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information. So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware.

Fees charged were £234,500 for the audit of the main account and £26,000 for other audit services.

Suma Chakrabarti 12 July 2006
Accounting Officer for the Department for International Development

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for International Development 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 I am required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

observe the Accounts Direction issued by HM 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;

prepare the accounts on a going concern basis.

HM Treasury has appointed me, as Permanent Secretary, Principal Accounting Officer for the Department for International Development. 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 department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

Suma Chakrabarti 12 July 2006
Accounting Officer for the Department for International Development

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for International Development's (DFID) 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*.

Senior managers take an active lead to support and promote improvements in risk management. Ministers decide on high-level policy risks based on advice from officials. The Secretary of State takes decisions on the Department's overall policy, and key components of policy on the basis of submissions, which usually include an assessment of risk. There are clear lines of delegation covering both policy and expenditure.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in DFID for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

I chair the DFID Management Board that has overall responsibility for leading on risk management for both strategic level risks and key delivery risks. The Board has adopted a risk management policy framework. All staff have been notified of this and given guidance on handling fiduciary and delivery risks. The Board is responsible for the Corporate Risk Register (CRR) which it assesses regularly and reviews in detail every year. The CRR identifies the key strategic risks to achieving the PSA targets and internal risks including staff security and safety. Each of the strategic risks in the register has a risk owner at Management Board level. The Management Board undertakes a review of Divisional plans including the risk management strategies set out in these.

The risk assessment and management system is regularly reviewed and improved. The changes during the year were, at the corporate level, to strengthen links between the risk and performance reporting frameworks (and a fuller overhaul of the corporate risk register is planned for Autumn 2006); and at the country office level through new guidance on planning and managing Country Assistance Plans. Further work is going on to improve the consistency of risk assessments, and to identify links between risk and country and sector performance. Staff training, particularly for staff taking up the role of managers of field-based development programmes, continues to be delivered regularly in the UK and in offices overseas.

The risk and control framework

The Department's Risk Management Policy Framework and Corporate Risk Register consider the risks we face, our attitude to them and a process for managing them. Although we are averse to risks that would damage DFID's reputation or the quality of our financial management we continue to be ready to allocate financial resources to activities which have a high risk of not achieving their objectives provided that the potential benefits to success (such as in contributing to the achievement of the MDGs) are proportionately high and that risks are managed sensibly. We work often in difficult environments (such as Iraq, Afghanistan and Sudan) and recognise that in some partner countries there will be weaknesses in internal control and the possibility of fraud or corruption; we take this into account in setting and implementing the risk management framework.

We have decentralised risk management as far as possible. The Management Board focuses on risks to reputation and organisational capability to achieve our high level goals. Directors are accountable to the Management Board for delivery of specific objectives and targets linked to DFID's Public Service Agreement. The Directors' Delivery Plans (DDPs), which are reviewed annually, include explicit consideration of risk. The plans are informed by risk assessments for country and institutional programmes and Departments within Divisions.

An Audit Committee, chaired by a non-executive member of the Management Board, leads on ensuring that DFID is a financially sound and efficient organisation which makes full and effective use of resources in support of DFID objectives.

We have established systems for assessing and monitoring fiduciary risk in relation to Poverty Reduction Budget Support (PRBS). This is an area where, though weaknesses in local systems can involve high risks, potential development benefits are considerable. We work with partner governments and other donors to undertake thorough fiduciary risk assessments, and to ensure that there is a credible programme of reform in place to address identified weaknesses in public financial management. Once programmes are underway, we and other donors support partner governments and their Auditors General to improve the availability of appropriate audit assurance on the use of funds, particularly where public financial management systems are weak. We carry out a systematic annual review of both fiduciary risk and progress on strengthening local systems which informs the risk reporting of the responsible Directors. We will continue to report separately to Parliament and others through the Departmental Report on the wider impact and effectiveness of PRBS, as well as on fiduciary and public financial management issues.

Development and procurement of infrastructure and IT systems comply with standard Government procedures that require full risk assessment and risk management processes. Project boards, reporting to senior managers and Management Board committees, oversee new developments.

Contingency plans have been drawn up for offices overseas and in the UK for threats to the security and effectiveness of our staff and key systems overseas and where possible to maintain continuity of operations.

Review of effectiveness

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

The Management Board leads on financial and risk management procedures within DFID. It receives Quarterly Management Reports on performance in these areas, and approves and advises Ministers on the recommendations of the annual internal resource allocation exercise. It is supported by a network of sub-Committees whose Terms of Reference, workplans and performance are reviewed by the Board on an annual basis to complement on-going dialogue throughout the year.

The Audit Committee provides assurance to me, as the Accounting Officer, by monitoring and reviewing the risk, control and governance systems in the organisation, and the associated assurance processes. The Committee provides oversight and guidance, where necessary, on the work of Finance and Corporate Performance Division. It also reviews the work programme of Internal Audit Department, discusses external audit strategies, and provides a key interface between DFID and the National Audit Office.

The Internal Audit Department (IAD) provides me, as the Accounting Officer, with an independent and objective opinion on the adequacy of systems of risk management, control and governance, by measuring and evaluating their effectiveness in achieving DFID's objectives. In addition, IAD's findings and recommendations are beneficial to line management in the audited areas. We have a specialist fraud response unit within the Internal Audit Department.

All Directors provide me with an annual statement covering identification and management of risk and an assurance on compliance with management and control systems. These statements include key performance data, an outline of action planned to remedy shortfalls in expected performance and a reconsideration of delivery risks. Directors' assurance statements are informed by departmental systems on management of performance and by in-year monitoring of these systems including sample testing.

I am satisfied with the overall control environment that has been in place in DFID for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts; that any weaknesses have been properly assessed; and that appropriate action has been taken to address them.

The operating environment for DFID will remain in many cases a challenging one, often involving high levels of risk. However, we will continue to attach high priority to identifying and managing these in the best way possible.

Suma Chakrabarti 12 July 2006
Accounting Officer for the Department for International Development

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Department for International Development 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 financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I 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 page 19 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 Report, the unaudited part of the Remuneration Report, and the Management Commentary. 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

Opinion

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
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP
13 July 2006

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

		Estimate			Outturn			2005-06 £000 Net total outturn compared with Estimate saving/ (excess)	2004-05 £000 Outturn
Request for Resources	Note	Gross expenditure	A in A	Net Total	Gross expenditure	A in A	Net Total		Net total
Eliminating Poverty in Poorer Countries	2	3,895,970	5,370	3,890,600	3,875,929	5,370	3,870,559	20,041	3,213,515
Conflict Prevention	2	48,050	–	48,050	32,944	–	32,944	15,106	43,930
Total Resources	3	3,944,020	5,370	3,938,650	3,908,873	5,370	3,903,503	35,147	3,257,445
Non–operating cost A in A		–	25,117	25,117	–	25,117	25,117	–	30,574

Net cash requirement 2005-06

	Note	Estimate	Outturn	2005-06 £000 Net total outturn compared with Estimate saving/ (excess)	2004-05 £000 Outturn
Net cash requirement	4	3,872,774	3,673,417	199,357	3,207,731

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 in italics)

		Forecast 2005-06		Outturn 2005-06	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	*£000*
Total	5	(9,000)	*(9,000)*	(22,348)	*(19,529)*

Variances of Estimate against Outturn by objective are given in Note 2 and explanations of significant variances are provided in the Management Commentary within the Annual Report.

The Notes on pages 30 to 60 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2006

	Note	Staff costs	2005-06 £000 Other costs	Income	2004-05 £000
Administration Costs					
Eliminating Poverty in Poorer Countries					
Staff Costs	8	93,595			83,038
Other admin costs	9		131,798		134,180
Operating income	11			(5,680)	(5,212)
Conflict Prevention					
Staff Costs	8	969			87
Other admin costs	9		1,694		283
Operating income	11			–	–
Programme Costs					
Eliminating Poverty in Poorer Countries					
Staff Costs	8	6,401			9,300
Programme Costs	10		3,644,136		2,992,680
Income	11			(13,010)	(7,721)
Conflict Prevention					
Staff Costs	8	212			416
Programme Costs	10		30,068		43,144
Income	11			–	–
Non voted					
Expenditure	10		1,604		1,973
Totals		101,177	3,809,300	(18,690)	
Net Operating Cost	3(a)			3,891,787	3,252,168

All expenditure and income relates to DFID core department.

All expenditure and income are derived from continuing operations.

There were no material acquisitions or disposals in the year.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

	2005-06 £000	2004-05 £000
Net gain/(loss) on revaluation of fixed asset investments	440,888	(3,627)
Gain on revaluation of tangible fixed assets	853	321
(Loss) on revaluation of tangible fixed assets	(136)	–
Recognised gains and losses for the financial year	441,605	(3,306)

Balance Sheet

as at 31 March 2006

	Note	31-Mar-2006 £000	£000	31-Mar-2005 £000
Fixed Assets:				
Tangible Assets	12	82,997		75,411
Intangible Assets	13	162		350
Investments	14	2,978,750		2,521,400
			3,061,909	**2,597,161**
Debtors falling due after more than one year	15		**278,736**	**307,300**
Current Assets:				
Debtors and Prepayments	16(a)	133,612		173,556
Cash at bank and in hand	17	13,178		43,570
		146,790		**217,126**
Creditors (amounts falling due within one year)	18(a)	(455,747)		(528,169)
Net Current Assets/(Liabilities)			**(308,957)**	**(311,043)**
Total Assets less Current Liabilities			**3,031,688**	**2,593,418**
Creditors (amounts falling due after one year)	18(a)	(375,747)		(258,118)
Provisions for Liabilities and Charges	20	(98,790)		(109,523)
			(474,537)	**(367,641)**
			2,557,151	**2,225,777**
Taxpayers' Equity				
General Fund	21		(1,722,356)	(1,832,161)
Revaluation reserve	22		(834,795)	(393,616)
			(2,557,151)	**(2,225,777)**

Suma Chakrabarti 12 July 2006
Accounting Officer for the Department for International Development

Cash Flow Statement

for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash outflow from operating activities	23(a)	(3,646,519)	(3,175,436)
Capital expenditure and financial investment	23(b)	(7,369)	(22,377)
Payment of amounts due to the Consolidated Fund		(14,323)	(17,393)
Financing	23(d)	3,637,819	3,243,526
Increase/(decrease) in cash in the period	17	(30,392)	28,320

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2006

	2005-06			2004-05		
Aim	**Gross**	**Income**	**Net**	**Gross**	**Income**	**Net**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Africa	1,133,089	(4,196)	1,128,893	895,756	(250)	895,506
Asia	775,736	(3,017)	772,719	715,163	(1,113)	714,050
Europe, Central Asia and elsewhere	298,411	(1,689)	296,722	290,385	(141)	290,244
Impact of multilateral agencies	1,345,152	(4,496)	1,340,656	933,513	(365)	933,148
Evidence based policy	133,881	(525)	133,356	202,060	(187)	201,873
Other and unclassifiable	224,208	(4,767)	219,441	228,224	(10,877)	217,347
TOTAL	**3,910,477**	**(18,690)**	**3,891,787**	**3,265,101**	**(12,933)**	**3,252,168**

DFID's Aim is to Eliminate Poverty in Poorer Countries through achievement of the Millennium Development Goals.

Within this it has the following objectives:

1. Reduce poverty in sub Saharan Africa (includes target shared for conflict reduction shared with FCO and MOD).
2. Reduce poverty in Asia.
3. Reduce poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa.
4. Increase the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises (includes target for debt relief shared with HM Treasury and target for reduction in trade barriers shared with FCO and DTI).
5. Develop evidence-based, innovative approaches to international development.

Numbers of staff employed by objective are shown in Note 8. Some support and other activities cannot readily be allocated to objectives and have been shown as a separate line.

Capital Employed by objective is shown in Note 24.

Notes to the Financial Statements

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2005-06 *Financial Reporting Manual (FReM)*. The particular accounting policies adopted by DFID are described below. Policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to DFID by reference to their current costs and the revaluation of fixed asset investments by reference to their current estimated value.

1.2 Coverage of Accounts

These accounts cover the activities of DFID only. DFID is the sponsor department for CDC Group plc (CDC), a self-financing Public Corporation and Actis llp, a fund management company. CDC and Actis results are not consolidated in these accounts since under FReM rules Public Corporations are outside the departmental resource accounting boundary. DFID's ownership interest is recognised in fixed asset investments.

In line with FReM rules on activities charged direct to the Consolidated Fund, the primary statements in these accounts do not include amounts attributed to DFID for the purpose of public expenditure control to reflect spending on development activities by the European Community from the EC budget. The EC also supports development activities through the extra-budgetary European Development Funds (EDF). UK contributions to EDF are included in programme expenditure in the Operating Cost Statement.

Operating costs include a non-voted, non-cash amount representing the loss of interest income to the Consolidated Fund from conversion of loans to grants under a programme of retrospective terms adjustment (RTA).

1.3 Value Added Tax (VAT)

Expenditure is shown net of VAT where output tax is charged or input tax is recoverable. Amounts owed to or by Customs and Excise for VAT at the balance sheet date are included in creditors and debtors. Irrecoverable VAT is included in amounts shown in the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

1.4 Foreign Exchange

Transactions in foreign currencies are accounted for at the sterling equivalent at the exchange rate for the date of each transaction. Realised gains and losses on transactions, including discharge of creditors where the obligation is expressed in foreign currency, are charged or credited to operating costs. Fixed asset investments and other balance sheet items where the underlying value is expressed in foreign currencies are re-translated into sterling at the exchange rates for the balance sheet date. Changes in value arising from exchange rate movements are dealt with as part of other changes in value (Note 1.7).

1.5 Fixed Assets

Title to freehold land and buildings is held in the name of, or on behalf of, the Secretary of State for International Development. Land and buildings are shown at current cost based on professional valuations carried out at not more than five year intervals.

Refurbishments to freehold and leasehold properties are capitalised at the actual costs incurred. Other tangible fixed assets are recognised in the accounts where they are used for general administration and acquired from administrative or programme capital funds. Asset costs include salaries and expenses of departmental staff arising directly from the development, construction and acquisition of the asset. Tangible fixed assets do not include items purchased from programme expenditure on behalf of overseas governments and others with the intention that ownership will in due course be transferred to them.

Fixed assets are capitalised above a threshold of £1,000 for individual assets. Items of office and domestic furniture and IT equipment and systems, some of which may individually cost less than £1,000, are capitalised on a grouped basis. IT systems in development are capitalised on the basis of actual costs incurred during the period until the work is completed and the asset is available for use and reclassified accordingly.

Fixed assets are valued at current replacement cost

1.6 Depreciation

Freehold land is not depreciated. Depreciation is provided on other tangible fixed assets on a straight line basis over the remaining useful lives of the assets. Depreciation on improvements to leaseholds and systems under development is provided from the point at which these come into use. The useful lives for main asset categories are as follows:

Office accommodation (freeholds)	30 years
Domestic property (freeholds)	20 years
Improvements to freeholds	15 years
Improvements to leaseholds	Over the remaining term of the lease
Motor vehicles	5 years
Office and domestic furniture and equipment	Mainly at 5 and 10 years
IT equipment	3 years
IT systems	Over individually assessed estimated useful lives

1.7 Investments

Investments include the United Kingdom interest in certain International Financial Institutions (IFIs). Shares in these bodies are not traded securities and these investments are valued on the basis of the UK share of the net assets attributable to shareholders taken from audited accounts taking account of any further contributions to capital during the year.

Increases in the value of investments, including those arising from retranslation to sterling of underlying values of investments which account in foreign currencies or from market movements, are taken to revaluation reserve. Reductions in value are taken to revaluation reserve to the extent that value is no lower than that at which assets were taken into the balance sheet, or to the extent that the reduction below this cost is judged to be of a temporary nature which will be recovered in the medium term. Permanent impairments below this cost are charged to the operating cost statement.

In accordance with the FReM, investments in public corporations falling outside the resource accounting boundary are recognised at cost.

1.8 Intangible Assets

Software licences are valued at purchase cost or replacement cost if materially different. Depreciation is provided on a straight line basis, generally over five years.

1.9 Long Term Loans

Loans to overseas governments, including a portfolio of public sector loans managed for DFID by Actis llp, are shown at realisable principal values net of provisions. These provisions include amounts which the UK has formally agreed will not be repaid under a programme to convert loans to grants. Repayments forecast to be made within one year are included in debtors.

1.10 Stocks

DFID does not hold material levels of stock items. Purchases of stock items such as stationery and office supplies are charged to the operating cost statement when acquired.

1.11 Cash: Third Party Monies

Cash balances in the primary statements exclude amounts held for third parties as custodian or trustee but in which neither DFID nor Government more generally has a direct beneficial interest. Amounts held at the balance sheet date are disclosed by way of note.

1.12 Provisions and Contingent Liabilities

Provisions are made where at the balance sheet date DFID has present obligations from past events to make future transfers of economic benefit and reasonable estimates of the value of the obligations can be made.

In addition to contingent liabilities disclosed in accordance with FRS12 the department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

(a) items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;

(b) all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the *FReM* to be noted in the resource accounts.

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.

1.13 Administration and Programme Expenditure

The operating cost statement illustrates administration and programme costs. Administration costs are those which fall within the administration cost control regime, together with associated operating income. Income is analysed between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit and other operating income.

Programme costs reflect payments of grants and other disbursements by the department and certain staff costs where they relate directly to service delivery.

1.14 Research and development

Expenditure by DFID from programme budgets in support of research and development is charged to the operating cost statement in the period in which it is incurred.

1.15 Operating Leases

Costs in relation to premises and equipment held under operating leases are charged to the operating cost statement in the period to which costs relate.

1.16 Capital charge

Operating costs include a charge for the cost of capital utilised by the department. The charge is calculated at the government's standard rate of 3.5 per cent on all assets less liabilities except for assets and liabilities for amounts due from or due to be surrendered to the Consolidated Fund and cash balances, where the charge is at a nil rate, and investments in public corporations where the charge is at a percentage rate agreed with the Treasury applied to net assets of the corporation.

1.17 Grants payable

Grants payable which are provided to support a particular activity or expenditure are recognised in the period in which the activity or expenditure occurs provided eligibility criteria have been met and a reasonable estimate of the amount can be made. Criteria vary with the terms and conditions of individual grant agreements.

Grants made to governments or international organisations where UK contributions are pooled with others and cannot therefore be matched directly with particular activities or expenditures are recognised in the period when agreed conditions for payment have been met.

In certain cases, grant contributions to international organisations are made in the form of promissory notes. The full amount of the promissory note is recognised as an expense in the period in which the note is deposited. Amounts not drawn down in cash from promissory notes at the balance sheet date are included in creditors.

1.18 Pensions

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a multi-employer defined benefit scheme and is un-funded. Liability to pay future benefits is a charge on the PCSPS rather than DFID; in accordance with FRS17, contributions by DFID are accounted for as for a defined contribution scheme. The expected cost of providing pensions is recognised on a systematic and rational basis over the period which benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Details of rates and amounts of contributions during the year are given in Note 8.

1.19 Early Departure Costs

DFID is responsible for the additional cost of benefits up to normal retirement age for employees who retire early. These costs are provided in full as an expense in the operating cost statement when early retirements have been agreed and arrangements are binding. In previous years part of the liability has been covered by an advance payment to the pension paying body (Office of the Paymaster General). Liability for future payments is shown under provisions net of amounts accounted for by such advance payments.

2. Analysis of Net Resource Outturn by section

	Outturn						2005-06 £000 Estimate		2004-05 £000
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net total	Net Total	Net total outturn compared with Estimate	Prior year outturn
Eliminating Poverty in Poorer Countries (DEL)									
A: Sub-Saharan Africa	46,938	140,670	906,902	1,094,510	(271)	1,094,239	1,076,447	(17,792)	858,458
B: Asia	30,787	79,226	638,994	749,007	(331)	748,676	772,427	23,751	690,854
C: Rest of the World	21,964	131,123	123,892	276,979	(696)	276,283	220,364	(55,919)	262,548
D: Multilateral Aid effectiveness	10,495	87,945	1,146,894	1,245,334	(30)	1,245,304	1,301,146	55,842	872,517
E: Innovative Approaches to Development	20,651	21,323	88,923	130,897	(56)	130,841	153,878	23,037	191,765
F: Multiple Objectives	9,883	71,332	136,429	217,644	(11)	217,633	213,934	(3,699)	207,912
G: Central Departments	83,471	1,191	-	84,662	(3,975)	80,687	76,581	(4,106)	67,555
H: Gibraltar Social Insurance Fund	-	-	5,462	5,462	-	5,462	6,200	738	6,211
Spending in Annually Managed Expenditure (AME)									
J: Multiple objectives (AME)	-	71,434	-	71,434	-	71,434	69,622	(1,812)	55,695
Non-budget									
EU Research Grants (Net)	-	-	-	-	-	-	1	1	-
Total RfR1	**224,189**	**604,244**	**3,047,496**	**3,875,929**	**(5,370)**	**3,870,559**	**3,890,600**	**20,041**	**3,213,515**
Conflict Prevention (DEL)									
A Africa	-	2,704	10,927	13,631	-	13,631	22,500	8,869	19,990
B Global	-	7,249	8,045	15,294	-	15,294	17,550	2,256	22,355
C Post conflict reconstruction	2,663	1,316	40	4,019	-	4,019	8,000	3,981	1,585
Total RfR 2	**2,663**	**11,269**	**19,012**	**32,944**	**-**	**32,944**	**48,050**	**15,106**	**43,930**
Total RfR 1&2	**226,852**	**615,513**	**3,066,508**	**3,908,873**	**(5,370)**	**3,903,503**	**3,938,650**	**35,147**	**3,257,445**

An explanation of variances between Estimate and Outturn is included in the Management Commentary within the Annual Report.

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

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

				2005-06 £000 Outturn compared with	2004-05 £000
	Note	Outturn	Supply Estimate	Estimate	Outturn
Net Resource outturn	2	3,903,503	3,938,650	(35,147)	3,257,445
Operating income not treated as Resource A in A	5	(12,868)	(2,500)	(10,368)	(6,387)
Operating expenditure not included in voted Resource	10	1,604	-	1,604	1,973
Excess Operating A-in-A	5	(452)	-	(452)	(863)
Net Operating Cost		3,891,787	3,936,150	(44,363)	3,252,168

A reconciliation between Resource Outturn shown in these accounts and Resource Budget is included in table 2 in the Management Commentary within the Annual Report.

3(b) Outturn against final Administration Budget

	Budget	2005-06 £000 Outturn	2004-05 £000 Outturn
Gross Administration Budget	243,881	226,852	217,588
Income allowable against the Administration Budget	(4,900)	(4,900)	(4,950)
Net Outturn against final Administration Budget	238,981	221,952	212,638

4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000
Resource Outturn		3,938,650	3,903,503	35,147
Capital				
Acquisition of fixed assets	12 & 13	37,017	29,926	7,091
Additions to loans and investments	14 & 15	30,100	22,498	7,602
Non-operating A in A				
Loan Repayments		(25,117)	(24,722)	(395)
Proceeds of fixed asset disposals		–	(395)	395
Accuals adjustments				
• Cost of Capital charges	9 & 10	(123,461)	(128,622)	5,161
• Depreciation	9	(22,008)	(21,306)	(702)
• Other non-cash items		(750)	(14,351)	13,601
• New provisions	15 & 20	(2,000)	(7,054)	5,054
• Use of provisions	20	18,899	14,899	4,000
• Other changes in working capital	19	21,444	16,670	4,774
Changes in creditors falling due after more than one year		–	(117,629)	117,629
Net cash requirement		3,872,774	3,673,417	199,357

An explanation of variances between Estimate and Outturn is included in the Management Commentary within the Annual Report.

5. Analysis of income and receipts payable to the Consolidated Fund

		Forecast 2005–06		Outturn 2005–06	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	*£000*
Operating income and receipts – excess A in A		–	–	(452)	(452)
Other operating income and receipts not classified as A in A		(2,500)	*(2,500)*	(12,868)	*(10,049)*
		(2,500)	*(2,500)*	(13,320)	*(10,501)*
Non-operating income and receipts – excess A in A	7	–	–	(9,028)	*(9,028)*
Other non-operating income not A in A		–	–	–	–
		–	–	(9,028)	*(9,028)*
Other amounts collectable on behalf of the Consolidated Fund		(6,500)	*(6,500)*	–	–
Total income payable to the Consolidated Fund		**(9,000)**	***(9,000)***	**(22,348)**	***(19,529)***

Actual receipts surrenderable to the consolidated fund were £19,529,143.81

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

	Note	2005-06 £000	2004-05 £000
Operating income	11	(18,690)	(6,546)
Income authorised to be Appropriated in Aid		(5,370)	(5,683)
Operating income payable to the Consolidated Fund		(13,320)	(863)

7. Non-operating income – Excess A-in-A

	Note	2005-06 £000	2004-05 £000
Principal repayments of voted loans	15	(33,750)	(32,870)
Proceeds on disposal of fixed assets		(395)	(102)
Income authorised to be appropriated in aid		25,117	30,574
Non-operating income payable to the Consolidated Fund		(9,028)	(2,398)

8. Staff numbers and related costs

Staff costs comprise:	2005-06					2004-05
	Total	**Permanently employed staff**	**Others**	**Ministers**	**Special Advisers**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Wages and salaries	86,429	80,691	5,528	104	106	82,228
Social security costs	4,216	4,195	–	10	11	3,860
Other pension costs	12,326	12,304	–	–	22	8,077
Sub Total*	**102,971**	**97,190**	**5,528**	**114**	**139**	**94,165**
Less recoveries in respect of outward secondments	(465)	–	(465)	–	–	(465)
Total net costs	**102,506**	**97,190**	**5,063**	**114**	**139**	**93,700**

*Gross staff costs have been charged as follows:

	£
Administration costs (RfR1)	93,595,337
Administration costs (RfR2)	969,292
Programme costs (RfR1)	6,400,873
Programme costs (RfR2)	211,820
Capital costs	1,794,245
	102,971,567

Pensions for most employees are provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. DFID 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.civilservicepensions.gov.uk).

For 2005-06, employers' contributions of £12,188,160.67 were payable to the PCSPS (2004-05 £8,506,262) 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% and 18.5%). 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 the range 17.1 to 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. Employers' contributions of £128,680.53 (2004-05 £117,729) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 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 £8,940 (2004-05 £6,482), 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 £nil. Contributions prepaid at that date were £nil.

Two individuals retired early on ill-health grounds (2004-05: 2 individuals); the total additional accrued pension liabilities in the year amounted to £3,673 (2004-05: £4,798).

8. Staff numbers and related costs (continued)

Average number of persons employed during the year (full time equivalents)

	2005-06					Restated 2004-05
	Total	**Permanent staff**	**Others**	**Ministers**	**Special Advisers**	**Total**
Reduce poverty in sub Saharan Africa	**766**	741	25	–	–	**792**
Reduce poverty in Asia	**576**	564	12	–	–	**613**
Reduce poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa	**290**	278	12	–	–	**307**
Increase the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises	**164**	143	21	–	–	**159**
Develop evidence based innovative approaches to international development	**235**	208	27	–	–	**249**
Other expenditure and expenditure unallocable to individual objectives	**715**	681	30	2	2	**737**
Staff engaged on capital projects	**42**	41	1	–	–	**8**
Total Request for Resources 1	**2,788**	**2,656**	**128**	**2**	**2**	**2,865**
Request for Resources 2:						
Conflict Prevention	**14**	7	7	–	–	8
Total	**2,802**	**2,663**	**135**	**2**	**2**	**2,873**

Staff numbers were previously notionally assigned to each objective, but can now be better assigned as a result of improved information. Numbers for 2004-05 have been restated based on this improved information being available.

9. Other and total Administration Costs

	2005-06		2004-05	
	£000	**£000**	**£000**	**£000**
Eliminating Poverty in Poorer Countries (RfR1)				
Operating leases rentals	20,557		21,031	
Hire of plant and machinery	46		46	
		20,603		21,077
Other current expenditure		86,063		86,139
Non Cash items				
Depreciation: Tangible Fixed Assets	21,106		19,859	
Depreciation: Intangible Fixed Assets	200		207	
Impairment/Revaluation of Fixed Assets	780		4,862	
Audit fees – resource account *	235		230	
Audit fees – other *	26		32	
Cost of capital charge (includes civil estate)*	1,183		956	
Movement in provisions	1,214		526	
		24,744		26,672
Loss on disposal of fixed assets		388		292
Other Administration Costs (RfR1)		**131,798**		**134,180**
Administration income (Note 11)		(5,680)		(5,212)
Staff Costs (Note 8)		93,595		83,038
Net Administration Costs (RfR1)		**219,713**		**212,006**
Conflict Prevention (RfR2)				
Staff Costs	969		87	
Other Admin Costs	1,694		283	
Net Administration Costs (RfR2)		**2,663**		**370**
Net Total Administration Costs		**222,376**		**212,376**

* Notional expenses taken to General Fund

10. Programme Costs

	2005-06		2004-05	
	£000	£000	£000	£000
Eliminating Poverty in Poorer Countries				
Staff Costs	6,401		9,300	
Grants/current expenditure – Bilateral	2,328,901		2,122,840	
Grants and other current expenditure – Multilateral	711,285		487,549	
Other - Gibraltar Social Insurance Fund	5,462		6,211	
Contributions to international financial institutions: promissory notes	471,505		256,270	
Loan management charges	86		4,461	
		3,523,640		2,886,631
Non Cash items				
Cost of capital charge*	127,439		105,207	
Movements in provisions	2,407		17,681	
Loss on disposal of fixed assets	378		894	
		130,224		123,782
Loss /(Gain) on foreign exchange	(3,327)		(8,433)	
		(3,327)		(8,433)
Total: Eliminating Poverty in Poorer Countries		3,650,537		3,001,980
Conflict Prevention				
Africa Staff Costs	98		176	
Africa Other Expenditure	13,533		19,814	
Global Staff Costs	114		240	
Global Other Expenditure	15,180		22,115	
Post-conflict reconstruction Expenditure	1,355		1,215	
Total: Conflict Prevention		30,280		43,560
Charge for loss of interest income to Consolidated Fund on conversion of loans to grants **		1,604		1,973
Total Gross expenditure		3,682,421		3,047,513
Programme income (Note 11)		(13,010)		(7,721)
Total Net Programme Costs		**3,669,411**		**3,039,792**

** Notional expense taken to General Fund*
*** Notional expense and not included in voted resource*

11. Income

			2005-06 £000	2004-05 £000
	RfR1	RfR2	Total	Total
Administrative Income:				
Rents from non-Government bodies	(4,343)	–	(4,343)	(4,238)
Other	(1,262)	–	(1,262)	(842)
Recovery of salary – EBRD Director	(75)	–	(75)	(132)
Sub total	**(5,680)**	**–**	**(5,680)**	**(5,212)**
Programme Income				
Non-capital appropriations in aid	(142)	–	(142)	(1,334)
Loan Interest	(12,868)	–	(12,868)	(6,387)
Sub total	**(13,010)**	**–**	**(13,010)**	**(7,721)**
Total	**(18,690)**	**–**	**(18,690)**	**(12,933)**

12. Tangible Fixed Assets

	Freehold Land and buildings	Leasehold related assets	Vehicles	Furniture and equipment	IT equipment and systems	Assets being constructed	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2005	10,387	36,315	6,788	14,926	54,241	5,543	128,200
Additions	532	3,284	704	2,491	14,486	8,417	29,914
Revaluation	250	–	19	(174)	(1,457)	–	(1,362)
Brought into use	–	–	–	–	504	(504)	–
Reclassification	(189)	189	–	–	–	–	–
Disposals	(101)	(70)	(729)	(1,469)	(1,313)	(27)	(3,709)
At 31 March 2006	**10,879**	**39,718**	**6,782**	**15,774**	**66,461**	**13,429**	**153,043**
Depreciation							
At 1 April 2005	(378)	(6,706)	(3,141)	(5,695)	(36,869)	–	(52,789)
Charged in year	(502)	(2,395)	(1,138)	(1,474)	(15,597)	–	(21,106)
Depreciation on revaluation	579	–	6	38	677	–	1,300
Reclassification	11	(11)	–	–	–	–	–
Disposals	35	3	563	763	1,185	–	2,549
At 31 March 2006	**(255)**	**(9,109)**	**(3,710)**	**(6,368)**	**(50,604)**	**–**	**(70,046)**
Net Book Value at 31 March 2006	**10,624**	**30,609**	**3,072**	**9,406**	**15,857**	**13,429**	**82,997**
At 31 March 2005	**10,009**	**29,609**	**3,647**	**9,231**	**17,372**	**5,543**	**75,411**

Additions (accruals basis)	29,914
Movement in Capital creditor	(1,027)
As shown in Cash flow	28,887

The department's freehold property in East Kilbride was valued at 31 March 2006 by GVA Grimley LLP International Property Advisers using RICS guidelines and reported a revised existing use valuation of £9,250,000 (land £1,575,000, buildings £7,675,000). Overseas properties were valued at 31 March 2002 by Knight Frank Grubb & Ellis (Chartered Surveyors), for our Zimbabwe property, and by Sanders O'Connor & Co Ltd (Quantity Surveyors), for our Solomon Islands property.

13. Intangible Assets

	2005-06
	£000
Cost	
At 1 April 2005	1,849
Additions	12
Disposals	–
At 31 March 2006	**1,861**
Depreciation	
At 1 April 2005	(1,499)
Charged in year	(200)
Disposals	–
At 31 March 2006	**(1,699)**
Net book value at 31 March 2006	**162**
Net book value at 31 March 2005	**350**

14. Fixed Asset Investments

		CDC Group Plc	Actis llp	Total
	£000	£000	£000	£000
At 1 April 2005	1,754,687	765,036	1,677	2,521,400
Additions	16,462	–	–	16,462
Revaluations	440,888	–	–	440,888
At 31 March 2006	**2,212,037**	**765,036**	**1,677**	**2,978,750**
Additions (accruals basis)	16,462	–	–	16,462
Non-cash adjustments including capital subscriptions made in the form of Promissory Notes	(9,883)	–	–	(9,883)
Amounts included in Note 23 (b)	6,579	–	–	6,579

Subsidiaries and associates: key data

	CDC Group plc		Actis llp	
	2005	Restated 2004	2005	2004
	£m's	£m's	$m's	$m's
Revenue	34.9	37.2	82.1	28.6
Surplus on revenue account	55.8	43.7	14.0	3.9
Capital return (before tax)	352.2	112	–	–
Total return after tax	425.8	200.2	13.2	3.3
Total net assets (valuation basis)	1,639.8	1,214.0	5.2	3.9

CDC Group plc have prepared their 2005 financial statements in accordance with International Financial Reporting Standards (IFRS). 2004 comparatives have therefore been restated to reflect changes arising from implementation of IFRS. The effect of this change on the comparatives is to recognise additional pension liabilities as per IAS 19 and to recognise valuation changes as per IAS 39. The total adjustment against net assets for these adjustments was (£33.4m), reducing net assets from £1,247.4m as previously published to £1,214.0m.

Programme operating costs include capital charges of £71,345,000 which represents 5.0% of CDC annual average assets of £1,426,900,000 (2004-05 £55,665,901 @ 5.0 per cent) and £88,565 which represents 3.5% of Actis annual average assets of £2,530,432 (2004-05 £29,348 @ 3.5%). There were no dividend or interest payments (2004-05 £nil).

14. Fixed Asset Investments (continued)

International financial institutions

Base currencies of investments in International Financial Institutions are shown below. $(US) figures include those bodies for which US$ are used as the working equivalent for units of account formally expressed in Special Drawing Rights (SDR). Revaluations for IFIs include £126 million (net) of unrealised gains arising from changes in exchange rates.

	2005-06		2004-05	
	Currency		Currency	
	'000	£000	'000	£000
International Bank for Reconstruction and Development	$1,702,888	981,718	$1,564,982	827,857
International Finance Corporation	$501,560	289,150	$398,750	210,934
European Bank for Reconstruction and Development	€ 845,567	589,944	€ 575,300	395,586
Asian Development Bank	$253,198	145,969	$273,959	144,921
Inter–American Development Bank	$180,341	103,967	$178,261	94,298
African Development Bank (in Units of Account)	66,722	55,413	53,682	42,788
Caribbean Development Bank	$43,560	25,113	$43,063	22,780
Multilateral Investment Guarantee Agency	$36,016	20,763	$29,346	15,523
		2,212,037		1,754,687

15. Debtors: amounts due after more than one year

	Bilateral and other	Loans managed by Actis llp	Total
	£000	£000	£000
Gross Value less provisions for debt relief and non-payment			
At 1 April 2005	310,320	17,558	327,878
Additions	8,090	947	9,037
Repaid	(38,844)	(185)	(39,029)
(Increase)/Decrease in provision	(2,567)	30	(2,537)
Utilisation of Provision	17,652	–	17,652
Written off (incl foreign exchange gain/(loss))	(14,353)	–	(14,353)
At 31 March 2006	280,298	18,350	298,648
Due within one year	18,895	1,017	19,912
Total: Debtors falling due after more than 12 months*	**261,403**	**17,333**	**278,736**
At 31 March 2005	**289,930**	**17,370**	**307,300**
** of which*			
falling due after 1 year less than 2 years	18,616	1,354	19,970
falling due after 2 years less than 5 years	47,474	4,271	51,745
falling due after 5 years	195,313	11,708	207,021
	261,403	17,333	278,736
Additions included above	8,090	947	9,037
Rescheduling of loans (payable to Consolidated Fund)	(2,054)	(947)	(3,001)
Included in cash flow statement – Note 23(b)	6,036	–	6,036
Repayments included above	(38,844)	(185)	(39,029)
Management charges deducted from repayments – included in expenditure	5,975	185	6,160
Principal repayments accrued 2004–05	–	(881)	(881)
Included in cash flow statement – Note 23(b)	(32,869)	(881)	(33,750)

16. Debtors: Amounts Falling Due Within One Year

16 (a) Analysis by type

	2005-06 £000	2004-05 £000
Loans repayable within one year*	19,912	21,459
Deposits and advances	44,460	45,573
Prepayments and accrued income**	69,223	106,524
Amounts due from Consolidated Fund	17	-
Total	**133,612**	**173,556**
Increase/(decrease) in working capital debtors (excluding loans).	*(38,397)*	*9,912*

* Of which £2,728 relates to Principal repayments accrued 2005-06 (2004-05 £881,340).

**Accrued income includes £14,878 which will be surrendered to the Consolidated Fund when received (2004-05 £165,388).

16 (b) Intra-Government balances

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2005-06	2004-05	2005-06	2004-05
Balances with other central government bodies	2,512	2,121	-	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra-government balances	2,512	2,121	-	-
Balances with bodies external to government	131,100	171,435	278,736	307,300
Total debtors at 31 March 2006	**133,612**	**173,556**	**278,736**	**307,300**

17. Cash at bank and in hand

	2005-06	2004-05
	£000	£000
Balance at 1 April 2005	43,570	15,250
Net Cash (outflow)/inflow	(30,392)	28,320
Balance at 31 March 2006	**13,178**	**43,570**

Balances at 31 March 2006 were held at:

	2005-06	2004-05
HM Paymaster General	6,053	35,388
Imprest accounts	7,125	8,182
Total	**13,178**	**43,570**

Analysis of Balances at 31 March

	2005-06	2004-05
Consolidated Fund creditor for Supply	3,095	38,693
Due to the Consolidated Fund Other Receipts	603	1,616
Due to the Consolidated Fund Excess A-in-A	9,480	3,261
Total	**13,178**	**43,570**

Other CFER	**£**	**£**
Held at 1 April	1,616,014	9,230
Arising during the year	10,185,304	6,221,696
Paid over during the year	(11,198,251)	(4,614,912)
Held at 31 March	**603,067**	**1,616,014**

Cash balances at Paymaster in 2005-06 and 2004-05 were held in sterling. Imprest balances are held in a variety of local currencies, none individually greater than £847k.

At 31 March 2006, in addition to the amounts shown above, the Department held £4,513,207 of cash provided by other development agencies as part of jointly funded programmes.

18. Creditors

18(a) Analysis by type

	2005-06		2004-05	
	£000	£000	£000	£000
Amounts Falling Due Within One Year				
Taxation	1,077		1,047	
Social Security	790		614	
Other creditors	1,361		959	
Accruals and deferred income	102,725		103,300	
		105,953		105,920
Promissory Notes: due within 12 months		333,615		378,514
Consolidated Fund creditor:				
Supply issued and not used	3,095		38,693	
Other amounts received – to be paid over	603		1,616	
Other amounts – to be paid over	3,001		165	
Excess Appropriations in Aid	9,480		3,261	
		16,179		43,735
Total		**455,747**		**528,169**
Decrease in working capital creditor (excludes Promissory Notes and Consolidated Fund)		(33)		24,978
Amounts Falling Due After More Than One Year				
Promissory notes: due after 12 months		**375,747**		**258,118**

18. Creditors (continued)

Promissory note creditor: movement during the year	**£000**	**£000**
Balance at 1 April 2005		(636,632)
Charge to operating costs in 2005-06 - new deposits (Note 10)	(471,505)	
Increase in subscriptions to International Financial Institutions (Note 14)	(9,883)	
Cash drawn down against notes previously issued	408,825	
Foreign Exchange gains/(losses)	(167)	
		(72,730)
Balance at 31 March 2006		(709,362)
of which		
Forecast to be drawn within 12 months		(333,615)
Forecast to be drawn after 1 year less than 2 years		(225,249)
Forecast to be drawn after 2 years less than 5 years		(125,955)
Forecast to be drawn after 5 years		(24,543)
		(709,362)

Promissory note creditor: analysis by institution at 31 March 2006	**Capital £000**	**Resource £000**
European Bank for Reconstruction and Development	(20,055)	
Other capital	(1,240)	
International Development Association		(396,765)
African Development Fund		(133,378)
Global Environment Fund		(30,683)
Asian Development Fund		(45,592)
Global Fund to fight Aids, TB and Malaria		(40,800)
Other (CDB, IFAD, Montreal Fund, UNFCC)		(40,849)
Total	**(21,295)**	**(688,067)**

18. Creditors (continued)

CF Creditor for Unused Supply	2005-06 £000	2004-05 £000
2005-06 Supply drawn down	(3,637,819)	(3,243,526)
"Deemed" supply (retained from 2004-05)	(38,693)	(2,898)
	(3,676,512)	(3,246,424)
Net Cash required	3,673,417	3,207,731
Supply creditor	(3,095)	(38,693)
Actual supply creditor	(£3,094,865.82)	(£38,693,315.33)

18(b) Intra-Government balances

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2005-06	2004-05	2005-06	2004-05
Balances with other central government bodies	(26,843)	(55,087)	–	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Subtotal: intra-government balances	(26,843)	(55,087)	–	–
Balances with bodies external to government	(428,904)	(473,082)	(375,747)	(258,118)
Total creditors at 31 March 2006	**(455,747)**	**(528,169)**	**(375,747)**	**(258,118)**

19. Movements in Working Capital Other Than Cash

	2005-06	2004-05
	£000	**£000**
(Increase)/decrease in debtors	38,397	(9,912)
Increase/(decrease) in creditors	33	24,978
Movement in working capital	38,430	15,066
Movement in debtors for accrued income to be surrendered to the Consolidated Fund	(151)	(270)
Net increase/(decrease) included in working capital movement in Resource Outturn	**38,279**	**14,796**
Movement in working capital as above	38,430	15,065
Movement in creditor for capital purchases not included in cash flows	(1,027)	(657)
Net increase/(decrease) in working capital other than cash	**37,403**	**14,409**
Capital accruals	1,027	657
Movement in accrued interest	(151)	(270)
Promissory note deposits	471,505	256,270
Promissory notes drawn down	(408,825)	(334,405)
Adjustment for change in creditors falling due after more than one year	(117,629)	––
Other changes in working capital (Note 4)	**(16,670)**	**(63,339)**

20. Provisions For Liabilities and Charges

	ATP Agreements	Early Retirement Costs	Other	Total
	£000	£000	£000	£000
Balance at 1 April 2005	70,831	2,580	36,112	109,523
Arising during year	-	2,815	1,511	4,326
Release of provision	(68)	-	(92)	(160)
Use of provision	(10,628)	(912)	(3,359)	(14,899)
Balance at 31 March 2006	**60,135**	**4,483**	**34,172**	**98,790**
Pre-funded Early Retirement costs		87		
Gross Early Retirement Provision		4,570		

Provisions for ATP agreements represent sums which DFID is committed to pay to the Export Credit Guarantees Department (ECGD) for interest make-up and insurance premiums under former mixed credit agreements (Aid and Trade Provision) projects. The ATP scheme is effectively closed and will not significantly affect the amount of the provision.

Provisions for early retirement represent the full estimated cost of payments to be made by DFID to early retirees up to the normal retirement age. The timing of calls on the provision can be forecast with reasonable accuracy. The amount provided is uncertain only to the extent that adjustments may need to be made for up-rating of benefits and for unexpected changes in the number of beneficiaries. Amounts provided are likely to be used within at most 10 years.

Other provisions represent (a) sums for rents payable by the University of Greenwich for property occupied by a former Executive Agency of the Department, when the work of the Agency was taken over by the University. The rent received is lower than payments by the Department under the main lease. The provision covers the shortfall of rents receivable against rents payable over the main lease period to 2014; (b) certain non-statutory pension obligations (most pension obligations for which DFID is responsible are included in the separate overseas superannuation account); (c) estimated liabilities at the 31st March of overseas offices in respect of terminal gratuity payments to staff appointed in country; (d) redundancy liabilities for redundancies agreed at 31st March; (e) expected cost of restoring property at Victoria Street currently leased by DFID to its original condition when the current lease expires.

21. General Fund

		2005-06
	£000	£000
General fund at 1 April 2005		(1,832,161)
Net operating costs for the year		3,891,787
Net parliamentary funding	(3,637,819)	
Supply Reissued	(38,693)	
Creditor for Supply	3,095	
Financing provided		(3,673,417)
Notional costs within operating costs		(128,883)
Charge for loss of income to CF for conversion of loans to grants		(1,604)
Realised element of revaluation reserve		(426)
Operating income payable to Consolidated Fund		12,868
Excess A-in-A payable to the Consolidated Fund		9,480
Net (increase)/decrease in General Fund		**109,805**
General fund at 31 March 2006		**(1,722,356)**

22. Revaluation Reserve

	2005-06
	£000
Reserve at 1 April 2005	(393,616)
Loss/(Gain) on revaluation – International Financial Institutions	(440,888)
Loss/(Gain) on revaluation – Land & Buildings	(828)
Loss/(Gain) on revaluation – Furniture and Equipment	136
Loss/(Gain) on revaluation – Vehicles	(25)
Realised element to General Fund	426
Balance at 31 March 2006	**(834,795)**

23. Notes to the Cash Flow statement

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

	2005-06 £000	2004-05 £000
Net Operating Cost	**(3,891,787)**	**(3,252,168)**
Adjustments for non-cash charges	631,590	413,350
(Increase)/Decrease in Debtors	38,397	(9,912)
Movement in debtors for items not passing through the OCS	–	–
Increase/ (Decrease) in creditors	(27,524)	53,028
Movement in creditors for items not passing through the OCS	27,556	(28,050)
Working capital movement: capital items	(1,027)	(657)
Use of provisions	(14,899)	(16,622)
Draw down of promissory notes	(408,825)	(334,405)
Net cash outflow from operating activities	**(3,646,519)**	**(3,175,436)**

23(b) Analysis of capital expenditure and financial investment

	2005-06 £000	2004-05 £000
Intangible fixed asset additions	(12)	(9)
Tangible fixed asset additions	(28,887)	(30,137)
Proceeds of disposal of fixed assets	395	102
Additions to investments	(6,579)	(8,859)
Additions to loans	(6,036)	(16,344)
Repayment of loans to other bodies	33,750	32,870
Net cash outflow from investing activities	**(7,369)**	**(22,377)**

23(c) Analysis of Capital Expenditure, Financial Investments and Associated A-in-A

	Fixed assets £000	Investments £000	A in A £000	2005-06 Net total £000
Administration	29,926	–	–	29,926
Programme: Long term loans	–	6,036	(33,750)	(27,714)
Programme: Investments	–	6,579	–	6,579
Programme: Investments non cash	–	9,883	–	9,883
Other Receipts	–	–	(395)	(395)
Total	**29,926**	**22,498**	**(34,145)**	**18,279**
Excess A in A to be surrendered to the Consolidated Fund			9,028	
Non Operating A in A (Note 4)			(25,117)	

23. Notes to the Cash Flow statement (continued)

23(d) Analysis of financing, and reconciliation to the net cash requirement

	2005–06 £000	2004–05 £000
From the Consolidated Fund (Supply) – Current Year	3,637,819	3,243,526
From the Consolidated Fund (Supply) – Prior Year	–	–

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

	2005-06 £000	2004-05 £000
Net cash requirement	(3,673,417)	(3,207,731)
From the Consolidated Fund (Supply) current year	3,637,819	3,243,526
Amounts due to the Consolidated Fund – received in a prior year and paid over	(4,877)	(12,352)
Amounts due to the Consolidated Fund – received and not paid over	603	1,616
Amounts due to the Consolidated Fund – Excess A-in-A	9,480	3,261
Increase/(decrease) in cash	**(30,392)**	**28,320**

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

Capital Employed by Departmental Aim and Objectives at 31 March 2006

Aim	2005-06 £000	2004-05 £000
1. Africa	3,495	1,451
2. Asia	2,390	479
3. Europe, Central Asia and elsewhere	849	1,601
4. Impact of multilateral agencies	2,549,296	2,215,866
5. Evidence based policy	423	2,103
6. Other and unclassifiable	698	4,277
TOTAL	**2,557,151**	**2,225,777**

Capital employed has been directly allocated to aims where there is a clear relationship between the capital employed and the departmental aim. Where this has not been possible, capital employed has been allocated in proportion to gross expenditure.

25. Financial instruments

Bilateral and other loans include gross principal amounts denominated in Euro of £261 million (2004-05: £284 million).

Financial Liabilities: Interest and currency risk	**2005-06**	**2004-05**
	£000	**£000**
	No interest	No interest
Sterling	688,067	615,729
Euro	20,055	19,766
US Dollars	1,240	1,137
Total	**709,362**	**636,632**

26. Capital Commitments

	2005-06	**2004-05**
	£000	**£000**
Contracted capital commitments at 31 March 2006 for which no provision has been made.	17,023	6,833

27. Commitments Under Operating Leases

	2005-06	**2004-05**
	£000	**£000**
Payments due within 12 months on leases expiring:		
Within 1 year	3,226	3,754
After 1 year but not more than 5 years	11,009	10,700
After 5 years	4,954	6,358

28. Contingent Liabilities

Contingent liabilities with an approximate value of £1.107 million (2004-05: £1.446 million) exist in respect of guarantees to the European Investment Bank's lending to UK Overseas Territories. Additional contingent liabilities of £1,497 million (2004-05: £483 million) exist in respect of contributions due to international organisations which have been subject to formal approval by Parliament but which are not yet supported either by promissory notes or cash payments.

In addition to contingent liabilities disclosed above 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. These amount to £7,227.9 million (2004-05: £6,730.5 million) and comprise:

£7,216.6 million (2004-05 £6,711.2 million) in respect of guarantees, including callable capital, to international banks, financial institutions, and for contractor performance;

Maintenance of the value of subscriptions paid to capital stock of regional development banks and funds (unquantifiable);

Indemnities in respect of the transfer of ownership of the Natural Resources Institute (unquantifiable);

£11.3 million (2004-05 £19.3 million) in respect of other items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement.

29. Related Party Transactions

DFID is the 100 per cent shareholder in CDC Group plc. DFID had no material transactions with CDC during the year.

DFID has a 40 per cent interest in Actis llp. Actis manages loans on behalf of DFID (Note 15) for which Actis received fees of £1.174 million.

In addition DFID has had a small number of transactions with other Government Departments and other Central Government bodies, including the National Audit Office (NAO). Most of these transactions have been with the Foreign and Commonwealth Office.

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

30. Accountability Notes

	2005-06	2004-05
	£000	£000
Total cases 214 cases	10,827	2,335
Losses		
Total (162 Cases)	10,220	1,722
Of which, those over £250,000 are as follows:		
Iraq, misuse of project funds in Southern Iraq.	254	
Bookkeeping losses due to unvouched expenditure arising from a failure to provide Annual Audited Statements		
– Grenada	484	
– St Vincent	1,390	
– India	5,455	
Other bookkeeping losses arising from:		
– Nepal suspense account balance	340	
– Asia Directorate office imprest account	313	
– Iraq unvouched expenditure	296	
Fruitless payments and constructive losses		
Total (36 cases)	36	34
Claims waived or abandoned		
Total (1 case)	1	4
Special Payments		
Total (15 cases)	570	49
Of which those over £250,000 are as follows:		
Nigeria EITI overdue payment to Hart	537	

Audited statements are required from overseas Governments to cover advances.
Final audited statements that were due to be certified covering issues totalling £13.79m (2004-05 £36.36 million) had not been certified at 31 March 2006.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID 5391659 07/06

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