

Presented pursuant to C.41, Schedule 7, para 12, section 3 of the Competition Act 1998

Competition Commission Account 2004-2005

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Foreword

Format of accounts

These financial statements have been prepared in a form directed by the Secretary of State for Trade and Industry with the consent of the Treasury in accordance with paragraph 12 of Schedule 7 to the Competition Act 1998.

Brief history of the Competition Commission and principal activities

The Competition Commission (CC) is an independent public body established by the Competition Act 1998. It replaced the Monopolies and Mergers Commission on 1 April 1999.

The CC conducts in-depth inquiries into mergers, markets and the regulation of the major regulated industries. Every inquiry is undertaken in response to a reference made to it by another authority: usually by the Office of Fair Trading (OFT) but in certain circumstances the Secretary of State, or by the regulators under sector-specific legislative provisions relating to regulated industries. The CC has no power to conduct inquiries on its own initiative.

The Enterprise Act 2002 introduced a new regime for the assessment of mergers and markets in the UK. In most merger and market references the CC is responsible for making decisions on the competition questions and for making and implementing decisions on appropriate remedies. Under the legislation which the Act replaces, the CC had to determine whether matters were against the public interest. The public interest test is replaced by tests focused specifically on competition issues. The new regime also differs from the previous regime where the CC's power in relation to remedies was only to make recommendations to the Secretary of State.

During 2004-2005 four inquiries under the Enterprise Act were carried forward from the previous year of which three were completed and one carried forward to the next financial year. Nineteen further inquiries were started in the year, of which ten were completed, three were cancelled, and six carried forward to the next financial year.

Inquiries summary	Mergers	Market	Total
New inquiries 2004-2005	17	2	19
Inquiries brought forward from 2003-2004	3	1	4
Deduct inquiries cancelled	(3)	0	(3)
Deduct inquiries carried forward at 31 March 2005	(4)	(3)	(7)
Inquiries completed in 2004-2005	13	0	13

Council and membership

The CC consists of members, who are supported by staff. The Chairman of the CC is also a member of the CC and chairs the Council (the strategic management board). The Council also includes the Deputy Chairmen, the Chief Executive, and two non-executive CC members appointed to the Council.

At 31 March 2005 the membership comprised the Chairman, and three Deputy Chairmen, two non-executives, 30 members of the reporting panel, of whom six were also members of the specialist panels (utilities and newspapers), and a further ten specialist panel members. All members are appointed by the Secretary of State.

Members at 31 March 2005

Chairman		1
Deputy Chairmen		3
Non – executives		2
Reporting panel members (includes six members also on specialist panels)		30
Specialist panel members	16	
(less the reporting panel members already included above)	(6)	
		10
Total members		<u>46</u>
Total panellists/roles		<u>52</u>

The Chairman, Professor Paul Geroski, was appointed from 1 May 2004, replacing Sir Derek Morris, whose appointment as Chairman ended on 30 April 2004.

Three members are currently appointed as Deputy Chairmen: Mr Peter Freeman (from 15 September 2003) and Mrs Diana Guy and Mr Christopher Clarke who were both appointed from 1 September 2004.

The Chief Executive Mr Martin Stanley was appointed from 1 October 2004, replacing Mr Robert Foster whose last day of service was 24 September 2004.

Each inquiry is conducted by a Group, consisting of three to six members, appointed by the Chairman. Normally there are five members on each group.

The names, responsibilities, biographical details and changes to CC members are given in the Annual Report.

Remuneration details of the CC Council members are disclosed in note 5 of the financial statements.

Register of members’ interests

A register of the outside interests of the CC’s Council, and other CC members, is maintained on the CC’s public web site: www.competition-commission.org.uk

Review of activities

The CC is the Phase 2 body in the UK’s competition framework. It is a purely reactive body, conducting inquiries only after it has received a reference from the OFT, or another regulator with powers to refer to the CC. The OFT conducts initial probes into mergers and markets, and refers cases to the CC where it has a reasonable belief that there might be problems with competition. The OFT looks into around 200 mergers a year, of which it refers around 15 cases to the CC; the OFT refers around three or four market inquiries a year to the CC. Other regulators refer intermittently e.g. price controls.

Financial results

The CC’s income consists principally of grant-in-aid received from the Department of Trade and Industry (DTI). The CC draws down grant to meet its cash requirements. All other income and expenditure is accounted for on an accruals basis. This treatment results in annual surpluses or deficits on an accounting basis.

In 2004-2005 the CC had an excess of expenditure over income resulting in a deficit (after interest and taxation) of £1,957,000 (2003-2004: deficit £1,668,000). Revenue grant-in-aid received was £16,534,000 (2003-2004: £15,319,000). Operating expenditure was £22,800,000 (2003-2004: £19,902,000). Capital grant received was £809,000 (2003-2004: £7,373,000).

Financial performance measure

The DTI reviews CC expenditure on the basis of Department Expenditure Limits (DEL). Revenue DEL is operating expenditure plus taxation and cost of capital, less interest receivable and other income receivable.

The table below shows a three year summary in DEL format including the forecast for 2005-2006

Three year expenditure summary

	2003-2004	2004-2005	2005-2006
	Actual	Actual	Forecast
	£000	£000	£000
Payroll costs	8,259	8,903	10,598
Accommodation costs	3,299	4,647	4,609
Other costs less sundry income	4,957	6,170	7,452
Relocation provision	1,836	798	0
Revenue DEL	<u>18,351</u>	<u>20,518</u>	<u>22,659</u>
Capital expenditure	<u>7,373</u>	<u>809</u>	<u>805</u>

The following table reconciles the revenue DEL format for 2004-2005 with the total expenditure of £22,800,000 shown in the Income and Expenditure account

	2004-2005
	Actual
	£000
Revenue DEL	20,518
<i>Add</i>	
Income receivable	2,222
Interest receivable	326
<i>Deduct</i>	
Cost of capital	(203)
Corporation tax	(63)
Expenditure per Income and Expenditure account	<u>22,800</u>

The budget set by DTI for 2004-2005 was £22,984,000, made up of revenue expenditure of £22,284,000 and capital expenditure of £700,000. The CC under-spent by £1,657,000 (7 per cent) overall, mainly as a result of a lower inquiry workload than anticipated plus cost effective controls resulting in various savings and efficiencies.

The DTI has set efficiency targets for the CC of 10 per cent plus inflation, to be achieved over the four years to 2007-2008 if not sooner. The DTI budget for 2005-2006 has been set at £23,464,000, made up of revenue expenditure of £22,659,000 and capital expenditure of £805,000. The indicative budgets for 2006-2007 and 2007-2008 have been set at £21,300,000 per annum to achieve the overall efficiency target.

Income arising from CC activities not reported in the financial statements

There is no further income accruing to the CC from its activities that is not reported in the financial statements.

Under certain of the Acts under which references can be made by sector regulators, a statement of costs incurred by the CC in its inquiries is provided to the appropriate regulator, which is responsible for collecting these costs from the regulated body. The regulators collect these costs and surrender the proceeds to the Consolidated Fund, not to the CC. The CC also provides a statement of the costs of merger inquiries to the OFT, which is responsible for setting the level of merger clearance fees. The OFT includes the CC's costs of merger inquiries in its memorandum trading account used in accounting for merger fees.

Payment of creditors

The CC is committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. Throughout the year the average payment period was 19 days (2003-2004: 17 days) and 90 per cent of relevant invoices were settled within 30 days (2003-2004: 92 per cent). 100 per cent is not achieved mainly due to invoices which arrive which do not quote a valid CC purchase order reference. These are not processed for payment until the validation of the respective purchase order is completed.

Employee involvement

The CC maintains an open management style and involves staff in the management of change. It has a Staff Council with staff representation from all parts of the organization. This is an important consultative forum for discussing new developments affecting staff. The Chief Executive runs regular seminars to which all staff are invited to hear presentations on issues of interest and to be updated on management changes and raise questions. The minutes of the meetings of the Executive Committee of senior managers are circulated to all staff.

Employment of disabled people

The CC adheres to the DTI's policy statement set out in its code of practice on the employment of disabled people.

Auditor

The CC's annual financial statements are audited by the Comptroller and Auditor General (C&AG). For the year ending 31 March 2005 the cost of work performed was £30,000. The audit services provided by the C&AG's staff in the National Audit Office related only to statutory audit work.

Post balance sheet events

Post Balance Sheet events are reported in Note 26.

Future developments

There are none to report.

Martin Stanley
Chief Executive and Secretary
Accounting Officer

21 June 2005

Statement of the CC's and the Accounting Officer's responsibilities

Under paragraph 12 of Schedule 7 of the Competition Act 1998, the Secretary of State, with the approval of the Treasury, has directed the CC to prepare a financial statement for each financial year in the form and on the basis set out in the Accounts Direction. The financial statements are prepared on an accruals basis and must give a true and fair view of the CC's state of affairs at the year end and of its income and expenditure, total recognized gains and losses and cash flows for the financial year.

In preparing financial statements the CC is required to

- i observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ii make judgements and estimates on a reasonable basis;
- iii state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- iv prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the CC will continue in operation.

The Accounting Officer for the DTI has designated the Chief Executive to the CC as the Accounting Officer for the CC. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in Government Accounting.

Statement of 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 CC's statutory obligations, policies, aims and objectives, whilst safeguarding the public funds and the CC's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve statutory obligations, 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 prioritize the risks to the achievement of the CC's statutory obligations, policies, aims and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized and to manage them efficiently, effectively and economically. The system of internal control has been in place in the CC for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The following processes are in place to give leadership to the risk management process and to ensure staff are trained or equipped to manage risk:

- i a Risk Management Committee (RMC), reporting to the Audit Committee, meets three times a year to ensure risks have been properly identified, evaluated and monitored, that appropriate procedures are established to address the risks identified, that staff are aware of risk management practices and risk training is undertaken as necessary;
- ii the RMC is responsible for the maintenance of a risk register for the CC in which risks have been ranked in terms of impact and likelihood. This register is updated at least once a year;
- iii a Security Working Group, reporting to the RMC, responsible for overall security policies and procedures and overseeing how effective security management is operating under the chair of the Departmental Security Officer; and
- iv a Business Continuity Group, comprising Heads of Function and reporting directly to me, is responsible for business continuity planning and operations. Also a team of Incident Controllers is in place to deal with any immediate emergencies that may occur.

The risk and control framework

The following processes are in place as part of the CC's overall risk and control framework:

- i all key management issues essential to the running of the CC and its compliance with relevant legislation are discussed at the Executive Group,¹ which meets every three to four weeks;
- ii an annually updated, rolling corporate and business plan, which is presented and agreed with the DTI. Priority objectives are presented using the balanced scorecard approach and all functions', teams' and managers' objectives are derived from this;
- iii project plans are drawn up for all inquiries and Inquiry Directors report progress to me on a weekly basis. A formal report is issued monthly on the status of each inquiry. Upon inquiry completion, formal reports are issued commenting on all aspects of the inquiry plan and process;
- iv financial control and value for money considerations are maintained by the Head of Finance and the Procurement Manager through procurement policy and procedures, a strict delegated financial authorities structure, control of purchases through a purchase order system and by a monthly financial reporting system to all senior managers and quarterly reporting to the DTI;

¹ The Executive Group comprises all the senior managers reporting to the Chief Executive, across all functions.

- v an Information Systems Programme Board (ISPB) which meets monthly and reviews the progress on all IS projects, sets long term IS strategy goals and reviews benefit realization from completed projects;
- vi Project Boards are established for all major projects (in particular our Relocation, IT Infrastructure and Electronic Data Records Management projects) to ensure projects are managed under generally accepted project management techniques including identification and assessment of project risks;
- vii a Staff Council with representatives from staff at all levels, which meets at least three times a year to advise staff of changes affecting the organization and to take account of their views and concerns; and
- viii responsibility for health and safety is delegated to an officer including the maintenance of annual external audits in this area.

Review of effectiveness

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

The following processes were in place to further maintain and review the effectiveness of the system of internal control

- i a Council² that meets at least six times a year to consider the plans and strategic direction of the CC and to evaluate recent inquiries and discuss best practice across reporting groups;
- ii an Audit Committee³ chaired by a non-executive member of Council which meets three times a year to advise me on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control in the CC. The Audit Committee provides an annual update of its activities to the Council for information; and
- iii an internal audit service. This was provided by PKF up to December 2004 and by Baker Tilly thereafter during 2004-2005. This included regular reports to standards defined in the Government Internal Audit Standard, as well as the independent opinion from the Head of Internal Audit on the adequacy and effectiveness of the CC's system of internal control together with recommendations for improvement.

Martin Stanley
Chief Executive
Accounting Officer and Secretary

21 June 2005

2 The Council comprises the Chairman, the deputy Chairmen, the Chief Executive and two non-executive members.

3 The Audit Committee comprises a non-executive member of Council, two members of the CC, the Chairman of the RMC and one or two senior members of staff.

Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 11 to 28 under the Competition Act 1998. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 14 to 15.

Respective responsibilities of the CC, the Chief Executive and Auditor

As described on page 6, the CC and Chief Executive are responsible for the preparation of the financial statements in accordance with the Competition Act 1998 and directions made thereunder and for ensuring the regularity of financial transactions. The CC and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Competition Act 1998 and directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the CC has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 7 to 8 reflects the CC's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the CC's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the CC and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the CC's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Competition Commission at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Competition Act 1998 and directions made thereunder; 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

6 July 2005

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Income and Expenditure Account for the year ended 31 March 2005

	Note	2004-2005 £000	2003-2004 £000
Income			
Government grant-in-aid	2	16,534	15,319
Other income	3	2,222	1,626
Transfer from deferred Government grant reserve	19	1,824	1,191
		20,580	18,136
Expenditure			
Members' remuneration	4	1,069	980
Staff remuneration costs	6	7,834	7,279
Depreciation	10, 11, 12	1,770	694
Permanent diminution in value of fixed assets	11	85	42
Loss on disposal of fixed assets	10, 11	26	0
Increase in provisions for liabilities and charges	18	798	1,956
Pension provision	18	191	156
Accommodation costs	7	6,701	4,531
Other operating charges	7	4,326	4,264
		22,800	19,902
Deficit on ordinary activities before interest and taxation		(2,220)	(1,766)
Interest receivable	8	326	238
Notional cost of capital	8	(203)	(173)
		123	65
Deficit on ordinary activities before taxation		(2,097)	(1,701)
Corporation tax	9	(63)	(140)
Deficit for the financial year after taxation		(2,160)	(1,841)
Add back - notional cost of capital	8	203	173
Deficit for the financial year		(1,957)	(1,668)

Statement of Total Recognized Gains and Losses

	2004-2005 £000	2003-2004 £000
Deficit for the financial year	(1,957)	(1,668)
Revaluation surplus (see note 20)	190	0
Prior period adjustment (as explained in note 31)	0	(1,043)
Total losses recognized since the last annual accounts	(1,767)	(2,711)

All operations are continuing. Refer to note 1(i) in the notes to the financial statements.

There were no material acquisitions or disposals of operations during the year.

The notes on pages 14 to 28 are part of the financial statements.

Balance Sheet

	Note	2005 £000	2004 £000
Fixed assets			
Intangible fixed assets	10	164	246
Tangible fixed assets	11	9,215	9,958
		<u>9,379</u>	<u>10,204</u>
Dilapidations asset provision	12	907	921
Current assets			
Debtors	13	1,374	2,625
Cash at bank and in hand	15	3,223	7,814
		<u>4,597</u>	<u>10,439</u>
Current liabilities			
Creditors: amounts falling due within one year	16	(2,627)	(7,107)
		<u>1,970</u>	<u>3,332</u>
Net current assets			
Debtors: amounts falling due after more than one year	14	447	835
Creditors: amounts falling due after more than one year	17	(2,415)	(2,264)
Provisions for liabilities and charges	18	(4,596)	(4,703)
		<u>5,692</u>	<u>8,325</u>
Total assets less total liabilities before pension liabilities			
Pension liabilities	18	(1,265)	(1,139)
		<u>4,427</u>	<u>7,186</u>
Financed by			
Deferred Government grant reserve	19	9,189	10,204
Revaluation reserve	20	190	0
Income and expenditure account	21	(4,952)	(3,018)
		<u>4,427</u>	<u>7,186</u>

Martin Stanley
Chief Executive and Secretary
Accounting Officer

21 June 2005

The notes on pages 14 to 28 are part of the financial statements.

Cash Flow Statement

	Note	2004-2005 £000	2003-2004 £000
Net cash (out)/inflow from operating activities	i	(4,541)	2,041
Capital expenditure	ii	(1,148)	(6,015)
Return on investments and servicing of finance	ii	334	224
Financing	ii	809	7,373
Taxation		(45)	(27)
(Decrease)/increase in cash	iii	(4,591)	3,596

Note (i) Reconciliation of deficit on ordinary activities before interest and taxation to operating cash flows

	2004-2005 £000	2003-2004 £000
Deficit on ordinary activities before interest and taxation	(2,220)	(1,766)
Movements not involving cash		
Depreciation	1,770	694
Loss on disposal of fixed assets	26	0
Provision for liabilities and charges	(14)	1,978
Permanent diminution in value of fixed assets	85	42
	(353)	948
Decrease/(increase) in debtors	1,417	(3,104)
(Decrease)/increase in creditors	(3,781)	5,388
Transfer from capital grant-in-aid	(1,824)	(1,191)
Net cash (out)/inflow from operating activities	(4,541)	2,041

Note (ii) Analysis of cash flows for headings netted in the cash flow statement

Capital expenditure

Payments to acquire fixed assets	(1,161)	(6,280)
Proceeds from the sale of fixed assets	13	265
	(1,148)	(6,015)

Return on investments and servicing of finance

Interest received	334	224
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Financing

Deferred income - capital grant-in-aid	809	7,373
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Note (iii) Analysis of changes in net funds

	At 1 April 2004 £000	Cash flow £000	At 31 March 2005 £000
Cash in hand and at bank	7,814	(4,591)	3,223

The notes on pages 14 to 28 are part of the financial statements.

Notes to the Financial Statements

1 Accounting policies

a Accounting convention

The financial statements have been prepared under the modified historical cost convention. Under this convention fixed assets are recorded in the Balance Sheet at their value to the business, usually current replacement cost. The income and expenditure account is charged with the proportion of the current cost of fixed assets consumed in the year. Without limiting the information given, the financial statements meet the accounting and disclosure requirements of the Companies Acts and best commercial practice including accounting and financial reporting standards issued or adopted by the Accounting Standards Board. They are in accordance with the Accounts Direction issued by the Secretary of State on 25 May 2000 and HM Treasury's guidance on the implementation of FRS 17; pension liabilities (refer to note 1(g)).

b Income

The cash needs of the CC are financed by grant-in-aid from the DTI. The revenue portion of the grant-in-aid is credited to income in the year to which it related. The portion receivable for capital expenditure is credited to a deferred Government grant account and released to the income and expenditure account over the expected useful lives of the relevant assets. Other income receivable relates to charges to tenants for occupancy charges and charges to other government bodies for secondees.

In 2003-2004 there was also an amount included in respect of damages under an office leasehold agreement. These sums are treated as appropriations in aid to offset additional directly related costs incurred.

c Fixed assets

Expenditure on fixed assets is capitalized. Tangible fixed assets comprise information technology equipment such as servers, PCs, and printers as well as office fixtures and fittings and office leasehold improvements. Intangible fixed assets comprise software licences. Please see below for the capitalization threshold limits and depreciation policy.

Leasehold improvements on Victoria House are depreciated over a ten-year period. Information technology is subject to replacement on a three to five year rolling basis. Where the impact is material, asset values are reviewed annually using relevant producer price indices and suppliers' replacement prices where appropriate. Expenditure on major information technology projects is capitalized. This includes expenditure directly incurred on hardware, software and consultants.

Expenditure directly incurred on the office relocation and refurbishment project was capitalized. This includes lawyers' and project management consultants' fees directly relevant to the project.

Fixed assets are capitalized where the value is £1,000 or over in a single purchase. However, for grouped purchases of IT equipment, IT software or fixtures and furniture, individual items with a value of £200 or greater are capitalized where the total grouped purchase is £1,000 or more.

Consultants' expenditure is generally written off when incurred. However, where the level of expenditure is over £100,000 and creates a distinct asset for the CC which has a life of more than one year, then consultants' costs that are directly attributable to the asset are capitalized.

d Depreciation

Depreciation is provided on all capitalized fixed assets at rates calculated to write off the cost or valuation of each asset, less any estimated residual value, evenly over their expected useful life as follows

Tangible fixed assets

Leasehold improvements	10 years
<i>Information technology</i>	
Servers	3 to 5 years
PCs, Laptops and printers	3 years
Fixtures and furniture	5 to 10 years
Leasehold dilapidations	20 years

Intangible fixed assets

<i>Information technology</i>	
Software licences	2 to 4 years

Leasehold improvements are depreciated over ten years, whereas the lease term itself is 20 years, because it is judged that the useful life of the asset is ten years.

Assets in the course of construction relate to

- i an electronic documents and records management system, consisting of hardware and consultants' fees within tangible fixed assets and software licences within intangible fixed assets, a Government Secure Intranet project and a Knowledge Management project. These projects are due for completion in 2005-2006 and depreciation will start from then over an expected period of three to four years; and
- ii assets in the course of construction will be revalued at current cost and then depreciated from the date that they become operational.

e Notional cost of capital

In accordance with Treasury requirements, a notional charge on capital of 3.5 per cent a year (2003-2004: 3.5 per cent a year) is levied on the CC on the average net capital employed.

f Taxation

- i the CC is liable for Corporation Tax on interest earned on bank deposits; and
- ii Costs shown for capitalized fixed assets include Value Added Tax (VAT). Expenditure in the Income and Expenditure account is also shown inclusive of VAT, with the exception of costs relating to property sub-letting and some miscellaneous trading activities. The CC became registered for VAT on 16 July 2004, with an effective date of 1 July 2003. It took the election, under Schedule 10, paragraph 2, VAT Act 1994, to waive exemption on its sub-letting income at its Victoria House office. This was dated 3 August 2004. Under this election, the CC charges VAT to its tenants on property transactions and reclaims VAT on its related expenditure. Expenditure on property which is sub-let and expenditure on miscellaneous trading activities is shown exclusive of VAT in the Income and Expenditure account from these respective effective dates.

g Pensions

Refer to note 22 for full staff and members pension details.

Provision is made for the actuarially assessed liability of the CC's 'PCSPS by analogy' pension scheme for members who are or were Chairmen or Deputy Chairmen. In accordance with HM Treasury guidelines on the implementation of FRS 17, the full calculated pension liability is accrued and recognised in the Income and Expenditure account.

No recognition of the staff PCSPS scheme is made in the CC's accounts as this is an unfunded multi-employer defined benefits scheme and the CC is unable to identify its share of the underlying assets and liabilities. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the CC recognizes the contributions payable for the year.

h Operating leases

Rentals are charged to the income and expenditure account in equal amounts over the lease term.

i Going concern

The accounts show a cumulative deficit on the Income and Expenditure account of £4,952,000 at the 31 March 2005. This mainly reflects the pension accrual made and the inclusion of an office relocation provision. The deficit will be met by future grants-in-aid from the CC's sponsoring department, the DTI. The Department has confirmed that there is no reason to believe that its future sponsorship will not be forthcoming within the capital and resource budgets set by Spending Review Settlements. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

j Provisions

The CC provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 3.5 per cent a year in real terms.

Where provisions for leasehold dilapidations are required, the CC creates a dilapidations asset, using discounted values, and depreciates the asset over the term of the leasehold.

2 Government grant-in-aid

The total grant-in-aid from the DTI in the year was as follows

	2004-2005	2003-2004
	£000	£000
Drawn down	13,800	26,235
Revenue - to income	16,534	15,319
On account 2004-2005 (see note below)	(3,543)	3,543
Capital - to deferred Government grant reserve (note 19)	809	7,373
Net grant drawn down	13,800	26,235
The reconciliation to the cash drawn from the DTI		
Net cash drawn from the DTI	13,800	26,235
On account 2004-2005 (see note below)	3,543	(3,543)
Net grant-in-aid for the year	17,343	22,692

Over the two year period, 2002-2003 and 2003-2004, the CC had drawn grant to cover its potential liabilities for office relocation, £3,543,000 (see note 18). At the request of the DTI, that amount was treated as on-account grant for 2004-2005. Grant to cover the office relocation liabilities is drawn down as and when required.

3 Other income

	2004-2005	2003-2004
	£000	£000
<i>Rent and other occupancy charges</i>		
External	551	347
Intra-Government - Competition Service	1,503	885
	2,054	1,232
<i>Charges for seconded out staff</i>		
Intra-Government - DTI	48	54
Intra-Government - HM Treasury	9	0
Intra-Government - Cabinet Office	4	0
Intra-Government - DfT	0	7
Compensated legal costs of judicial review	105	0
Leasehold agreement damages for delays	0	333
Sundry income	2	0
Total other income	2,222	1,626

2004-2005 occupancy charges are for a full year; 2003-2004 charges are for part of a year.

4 Members' remuneration costs

The cost of members' remuneration was

	2004-2005	2004-2005	2004-2005	2003-2004
	£000	£000	£000	£000
	Full time	Reserve	Total	Total
Salaries	413	554	967	889
Social security costs	49	53	102	91
	462	607	1,069	980

- a Members of the CC during the year are listed in the Annual Report. Terms and conditions of appointment for members are determined by the Secretary of State with the approval of the Treasury. Under the Enterprise Act 2002, new appointments will normally be for eight years. Members appointed prior to the Enterprise Act 2002 are normally on four year terms with an option to extend for a further four years at their decision.
- b Reserve members are paid per diem and their travel expenses from home to office. Taxation and National Insurance on these payments are also paid by the CC.

5 Council remuneration costs

The remuneration of members of the Council of the CC is given in the table below

Council members' remuneration	Age	Pension Salary contributions	Taxable expenses	2004-2005 Total	2003-2004 Total
Professor Paul Geroski (Chairman)*	52	137,245	904	138,149	90,816
Mr Peter Freeman (Deputy Chairman)	56	113,520		113,520	61,805
Mrs Diana Guy (Deputy Chairman)*	62	52,976		52,976	n/a
Mr Christopher Clarke (Deputy Chairman)*	59	52,976		52,976	n/a
Dame Patricia Hodgson (non-Executive)	58	7,000	174	7,174	1,620
Mr Tony Foster (non-Executive)	59	11,725	1,516	13,241	7,111
Mr Martin Stanley (Chief Executive)*	56	60,000	11,100	71,100	n/a
Sir Derek Morris (former Chairman)*	59	14,167	1,291	15,458	181,375
Mr Robert Foster (former Chief Executive)*	61	54,929	9,422	64,351	123,487

Benefits in kind were zero. Taxable expenses relate to home to office travel, which are paid by the CC, including the Income Tax and National Insurance thereon.

*Professor Geroski was appointed Chairman on 1 May 2004 (previously he was a Deputy Chairman). Mrs Diana Guy was appointed on 1 September 2004. Mr Christopher Clarke was appointed on 1 September 2004. Mrs Diana Guy and Mr Christopher Clarke were previously members but the remuneration shown above relates only to their period as Deputy Chairmen. Mr Martin Stanley was appointed on 1 October 2004. Sir Derek Morris' last day of service was 30 April 2004. Mr Robert Foster's last day of service was 24 September 2004.

Professor Geroski, Mr Peter Freeman, Mrs Diana Guy, Mr Christopher Clarke and Sir Derek Morris were also members of the CC and their remuneration is included in members' salary costs in note 4. The remuneration for Mr Martin Stanley and Mr Robert Foster is included in staff payroll under note 6. Mr Robert Foster's salary shown above includes a bonus payment of £4,000.

Salary payments shown above for Dame Patricia Hodgson and Mr Tony Foster relate to fees paid.

The Chairman and Deputy Chairmen are appointed for the same period terms as ordinary members (see note 4 (a)). Deputy Chairmen are appointed on a four days a week basis except Mr Peter Freeman who is on a five days a week basis.

Pension details of Council members

Professor Geroski, Mr Peter Freeman, Mrs Diana Guy, Mr Christopher Clarke and Sir Derek Morris, are pensioned by analogy to the PCSPS, gaining benefits commensurate with their salary and service. No contributions are made to this scheme by the CC but the pensions are paid to retired members when they become due. See also note 22 below. Mr Martin Stanley and Mr Robert Foster are members of the PCSPS scheme and the pension benefits quoted below are accrued from their total Civil Service employment not just their time with the CC.

The members quoted do not have pension arrangements that differ from the standard. The members quoted do not hold membership of the PCSPS (Earnings Cap) Scheme or accelerated Accrual arrangements. The members quoted are not contributing at a rate other than the standard PCSPS rate.

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
	Real increase in pension £000	Real increase in lump sum £000	Pension at 31 March 2005 £000	Lump sum at 31 March 2005 £000	CETV at 31 March 2004 (nearest £000)	CETV at 31 March 2005 (nearest £000)	Employee contributions and transfers-in £000	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £000)
Professor Paul Geroski	0-2.5	n/a	5-10	n/a	56	85	2.5-5	22
Mr Peter Freeman	0-2.5	n/a	0-5	n/a	13	37	2.5-5	20
Mrs Diana Guy	0-2.5	n/a	0-5	n/a	0	14	0-2.5	12
Mr Christopher Clarke	0-2.5	n/a	0-5	n/a	0	13	0-2.5	11
Mr Martin Stanley	2.5-5	n/a	55-60	n/a	750	834	0-2.5	59
Sir Derek Morris	0-2.5	0 - 2.5	10-15	30-35	201	203	0-2.5	1
Mr Robert Foster	0-2.5	2.5-5	45-50	140-145	829	859	0-2.5	16

Columns 5 and 6 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 8 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.

A CETV is the actuarially assessed capitalized value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

During the year ended 31 March 2005 pension payments of £76,000 (2003-2004: £67,000) were made to retired Chairmen and Deputy Chairmen members.

6 Staff remuneration costs

a The cost of staff remuneration was

	2004-2005 CC operations £000	2004-2005 Non-CC £000	2004-2005 Total £000	2003-2004 Total £000
Salaries	6,390	50	6,440	6,073
Social security costs	543	4	547	463
Pension costs	840	7	847	743
Total staff costs	7,773	61	7,834	7,279

Non-CC relates to salary costs recharged to third parties; see note 3: Other income.

b Number of staff

The average monthly number of full-time-equivalent staff, including secondees from government departments, other organizations, staff employed on short-term contracts and temporary and contract staff is shown below as full-time-equivalents (FTEs):

	2004-2005	2003-2004
Employed on references		
Senior management	16	10
Other staff	73	71
Total employed on references	89	81
Inquiry support and planning		
Senior management	2	2
Other staff	24	24
Total inquiry support and planning	26	26
Support staff		
Senior management	0	0
Other staff	38	35
Total support staff	38	35
Project staff	6	8
Total staff FTEs	159	150

7 Accommodation costs and other operating charges

a Accommodation costs

	2004-2005	2003-2004
	£000	£000
New Court	0	1,501
Victoria House	6,701	3,030
Total accommodation costs	6,701	4,531

The CC vacated its former accommodation at New Court in February 2004. Costs relating to New Court since then are shown as a relocation provision cost. Refer to notes 18 and 23.

Accommodation costs for Victoria House have increased by 121 per cent reflecting the first full year's occupancy. The previous year's cost is 45 per cent of 2004-2005, reflecting the lease start date of half way through 2003-2004 and staff relocation towards the end of that year.

The CC occupies 68 per cent of its office space at Victoria House with the remainder sublet. The accommodation costs shown above are the full costs before sublet income of £2,054,000 (2003-2004: £1,232,000) which is included as other income (see note 3).

b Other operating charges

	2004-2005	2003-2004
	£000	£000
Consultants' fees inquiry related*	630	431
Consultants' fees not inquiry related*	477	272
Consultants' fees relocation	44	23
Consultants' fees relocation IT	0	51
Consultants' fees IT operations	390	393
Consultants' fees IT projects*	83	330
Relocation costs	0	233
<i>Travel, subsistence and hospitality</i>		
Members	195	285
Staff and contractors	99	82
Staff recruitment*	449	302
Staff training*	356	268
Publishing	69	150
Audit fees	30	35
Other administration*	1,504	1,409
Total other operating charges	4,326	4,264

* Comments are made below on significant changes year on year:

Consultants' fees inquiry related: have increased by 46 per cent mainly due to a larger number of inquiries undertaken compared to the previous year.

Consultants' fees not inquiry related: have increased by 75 per cent mainly due to reviews conducted on our staff pay and performance system and Efficiencies Savings project.

Consultants' fees IT projects: costs have reduced by 75 per cent due to fewer projects than the previous year.

Staff recruitment: costs have increased by 49 per cent due to an increase in inquiry staff headcount and a high level of senior staff recruitment.

Staff training: costs have increased by 33 per cent mainly due to additional training required for new Enterprise Act responsibilities and for future responsibilities under the Energy Act.

Audit fees: shown for 2004-2005 represent £30,000 due to the National Audit Office for 2004-2005 work. The audit services provided by the National Audit Office related only to statutory audit work.

Other administration: costs have increased by 7 per cent in the year largely due to additional administration costs associated with increases in the inquiry workload.

8 Interest

	2004-2005	2003-2004
	£000	£000
Interest receivable	326	238
Notional cost of capital	(203)	(173)
	<u>123</u>	<u>65</u>

Interest was received on funds deposited with the office of HM Paymaster General. In accordance with Treasury guidelines, notional interest payable on capital employed was calculated at 3.5 per cent on the average capital employed by the CC for the year (2003-2004: 3.5 per cent).

9 Taxation

	2004-2005	2003-2004
	£000	£000
Corporation Tax payable interest	63	45
Corporation Tax payable other	0	95
	<u>63</u>	<u>140</u>

Corporation Tax payable on interest is based on 19 per cent (2003-2004: 19 per cent) of gross interest receivable. Other Corporation Tax payable related to tax on a reverse lease premium.

10 Intangible fixed assets

	Software licences £000
Current cost	
At 1 April 2004	335
Additions at cost	53
Transfers	0
Disposals	(14)
At 31 March 2005	<u>374</u>
Amortization	
At 1 April 2004	89
Provision for the year	123
Released on disposal	(2)
At 31 March 2005	<u>210</u>
Net book value	
At 31 March 2004	246
At 31 March 2005	<u>164</u>

11 Tangible fixed assets

	Information technology £000	Fixtures and furniture £000	Leasehold costs £000	Assets in course of construction £000	Total £000
Current cost					
At 1 April 2004	2,017	608	7,206	908	10,739
Additions at cost	172	2	0	582	756
Transfers	93	0	(93)	0	0
Disposals	(89)	0	0	0	(89)
Revaluation	(257)	0	217	0	(40)
At 31 March 2005	1,936	610	7,330	1,490	11,366
Depreciation					
At 1 April 2004	609	52	120	0	781
Provision for the year	751	115	734	0	1,600
Transfers	1	0	(1)	0	0
Released on disposal	(62)	0	0	0	(62)
Revaluation	(172)	0	4	0	(168)
At 31 March 2005	1,127	167	857	0	2,151
Net book value					
At 31 March 2004	1,408	556	7,086	908	9,958
At 31 March 2005	809	443	6,473	1,490	9,215

A transfer to IT of £93,000 was made in the year relating to audio visual equipment previously shown in leasehold costs.

The revaluation relates to a permanent diminution in the value of IT equipment and an increase in the value of leasehold assets based on the relevant Office for National Statistics price indices.

Assets in the course of construction: the balance of £1,490,000 comprises an Electronic Records Management project, a Government Secure Intranet project and a Knowledge Management project. Refer to note 1(d).

12 Dilapidations asset provision

	Dilapidations asset provision £000
Current cost	
At 1 April 2004	945
Unwinding of discount	33
Revaluation	0
At 31 March 2005	978
Depreciation	
At 1 April 2004	24
Provision for the year	47
Revaluation	0
At 31 March 2005	71
Net book value	
At 31 March 2004	921
At 31 March 2005	907

The capitalized office dilapidations asset provision current cost is the discounted value of the CC's estimated leasehold office reinstatement liability at the end of the Victoria House lease in 2023.

13 Debtors: amounts falling due within one year

	2005 £000	2004 £000
Staff travel advances	29	37
<i>Trade debtors</i>		
External	11	3
Intra-Government - DTI	15	39
Intra-Government - HM Treasury	5	0
Intra-Government - Competition Service	0	22
Prepayments - rent	1,066	0
Prepayments - other	88	56
VAT Debtor	74	0
Tenants' rent free period	62	0
Sundry debtors	7	217
Relocation project contribution accrued	0	2,226
Interest accrued	17	25
	<u>1,374</u>	<u>2,625</u>

The £2,226,000 relocation project debtor in 2004 related to a reimbursement of capital expenditure by the landlord which led to a general improvement in the property of benefit to the landlord.

14 Debtors: amounts falling due after more than one year

	2005 £000	2004 £000
Intra-Government - Competition Service	340	440
Other debtors	107	395
	<u>447</u>	<u>835</u>

Debtors falling due after one year represent a rent-free period granted to tenants which is being amortized over the periods of the respective leases. The total rent-free period debtor at 31 March 2005 including amounts falling due within one year was £509,000.

15 Cash at bank and in hand

	2005 £000	2004 £000
Paymaster General	3,222	7,814
Cash in hand	1	0
	<u>3,223</u>	<u>7,814</u>

The CC keeps as its main account an interest-bearing current account with the Paymaster General's Office.

16 Creditors: amounts falling due within one year

Amounts falling due within one year at the end of the year were

	2005	2004
	£000	£000
<i>Trade creditors and accruals</i>		
External	1,763	3,028
Intra-Government - OFT	9	0
Intra-Government - Competition Service	24	0
DTI grant on account	0	3,543
Deferred income	138	119
Other creditors	131	103
PAYE and National Insurance	404	174
Corporation Tax	158	140
	<u>2,627</u>	<u>7,107</u>

The 2003-2004 DTI creditor of £3,543,000 represents grant drawn before 31 March 2004 to fund office leasehold liabilities (see note 18) which was subsequently reclassified at DTI's instruction as on-account grant for 2004-2005.

17 Creditors: amounts falling due after more than one year

Amounts falling due after one year at the end of the year were

	2005	2004
	£000	£000
Victoria House rent - deferred income	<u>2,415</u>	<u>2,264</u>

The Victoria House deferred income relates to the capitalization of a rent-free period. Under the rules of UITF Abstract 28, Operating Leases, the value of the rent-free period is being amortized on a straight line basis over the 20-year term of the lease. Total deferred income including amounts falling due within one year was £2,553,000 (2003-2004: £2,383,000).

18 Provisions

Provisions for the year ending 31 March 2005 are

	Office relocation £000	Staff £000	Sub-total £000	Capitalized office dilapidations £000	Total provisions £000
As at 1 April 2004	3,543	215	3,758	945	4,703
Provided in the year	798	0	798	0	798
Provisions not required written back	0	(112)	(112)	0	(112)
Provisions utilized in the year	(723)	(103)	(826)	0	(826)
Unwinding of discount	0	0	0	33	33
As at 31 March 2005	<u>3,618</u>	<u>0</u>	<u>3,618</u>	<u>978</u>	<u>4,596</u>

Expected timing of cash flows

	£000	£000	£000	£000	£000
Less than one year	959	0	959	0	959
One to five years	2,659	0	2,659	0	2,659
More than five years	0	0	0	978	978

The office relocation provision relates to the CC's former office, New Court, which it vacated in February 2004. Provisions are made to cover contracted office rental liabilities at New Court until reassignment. Refer to note 23 on operating leases for an explanation of the CC's contractual obligations for New Court. The provision is the CC's best estimate of its eventual liabilities and represents the cost of three further years out of the total seven years left on the agreement taking into account likely sub letting income.

The expected timing of the cash flow is uncertain and may be less than one year or one to five years. The most likely timing is within three years.

The capitalized office dilapidations provision is the discounted value of CC's estimated reinstatement liability at the end of the Victoria House lease in 2023.

Pension provisions for the year ending 31 March 2005 are

	Pension liabilities £000
As at 1 April 2004	1,139
Provided in the year	191
Provisions not required written back	0
Provisions utilized in the year	(65)
Unwinding of discount	0
As at 31 March 2005	<u>1,265</u>

In accordance with the requirements of FRS 17 the CC has provided for the actuarially assessed liability of the CC's 'PCSPS by analogy' pension scheme (see note 22).

19 Deferred Government grant reserve

The movements on the deferred Government grant reserve were

	2004-2005 £000	2003-2004 £000
Balance at 1 April	10,204	4,022
Add capital grant received (note 2)	809	7,373
Less transferred to income and expenditure account	(1,824)	(1,191)
Balance at 31 March	<u>9,189</u>	<u>10,204</u>

20 Revaluation reserve

	2004-2005 £000	2003-2004 £000
Balance at 1 April	0	0
Revaluation of leasehold assets in the year	217	0
Realized element transferred to income and expenditure reserve	(23)	0
Backlog depreciation to leasehold assets	(4)	0
Balance at 31 March	<u>190</u>	<u>0</u>

21 Income and expenditure account

	2004-2005 £000	2003-2004 £000
Balance at 1 April	(3,018)	(307)
Prior period adjustment (see note 31)	0	(1,043)
Balance at 1 April restated	(3,018)	(1,350)
Realized element of revaluation reserve	23	0
Deficit for the year	(1,957)	(1,668)
Balance at 31 March	(4,952)	(3,018)
<i>Made up of</i>		
Pension provision	(1,265)	(1,139)
Office relocation provision	(3,618)	(3,543)
Other income and expenditure	(69)	1,664
Total at 31 March	(4,952)	(3,018)

The cumulative deficit at 31 March 2005 of £4,952,000 is primarily made up of the pension provision, £1,265,000 and the office relocation provision, £3,618,000 both of which were unfunded in terms of grant-in-aid received at 31 March 2005.

A prior period adjustment of £1,043,000 was made in 2003-2004 in accordance with FRS 17 for the accrual of the members' pension liability (see note 31).

22 Staff and members' pension costs

Ordinary and panel members of the CC are not pensioned.

Members who are or were Chairmen or Deputy Chairmen are members of the CC's 'PCSPS by analogy' scheme, gaining benefits commensurate with their salary and service. This is a defined benefit scheme and is unfunded and non-contributory except in respect of dependants' benefits and additional employee contributions to the Classic and premium schemes. At 31 March 2005 there were four active members, nine current pensioners and two deferred pensioners. The CC makes no contributions to the scheme. Instead it pays pensions to retired members as they become due. The actuarial liability at 31 March 2005 was £1,265,000 (31 March 2004: £1,139,000). Pensions in payment of retirees (and deferred pensions) increase at the rate of 3.1 per cent from 11 April 2005. The CC is satisfied that any obligation it is unable to meet in the normal course of its activities in respect of members' pensions would be met by the Secretary of State.

The valuation was carried out by the Government Actuary's Department from membership information supplied to them. The financial and demographic assumptions used in the assessment are consistent with those used elsewhere in central government for resource accounting. The key financial assumption, that rates of return net of price increases are 3.5 per cent a year, is specified for resource accounting purposes by HM Treasury. The following allowances are assumed: increase in salaries 4.0 per cent a year, price inflation 2.5 per cent a year, increase for pensions in payment and deferred pensions 2.5 per cent a year.

Staff pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, employees of the CC 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 from 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 as per 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. 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 CSP arrangements can be found at the web site www.civilservice-pensions.gov.uk For 2004-2005, employer's contributions of £847,000 were payable to the PCSPS (2003-2004: £743,000).

23 Operating leases

At 31 March 2005 the CC was committed to making the following payments during the next year in respect of operating leases before VAT

	2005	2004
	£000	£000
Land and buildings		
Leases which expire after five years	4,135	4,012

The CC has a 20-year lease for office space in Victoria House, Southampton Row, London, WC2. The lease start date was September 2003. The total space is 8,261 square metres of which 2,653 square metres (32 per cent) has been sublet and 5,608 square metres (68 per cent) is the CC's net space. The CC's net operating lease commitment is £2,777,000 a year (2004: £2,700,000).

The CC also has an existing tenancy agreement under a memorandum of terms of occupation (MOTO) between the DTI and The Valuation Office for approximately 3,000 square metres of office space in New Court, Carey Street, London WC2. This agreement expires on 24 March 2012. The CC has no formal or contractual responsibility for the liabilities under this agreement. However, it has agreed with DTI to manage the reassignment of the agreement and to make financial provision for the potential future liabilities. The provision made under 'office relocation' is the CC's best estimate of its likely continuing cost up to the point the MOTO is re-assigned taking account of potential sub-let income. Three years out of the total seven remaining have been provided for

24 Contingent liabilities

There are no contingent liabilities to report.

25 Capital commitments

The CC has no capital commitments on the Victoria House lease, except for dilapidations which mature upon the 20-year expiry in 2023 which are provided for in these accounts.

There are no capital commitments under the terms of its New Court occupancy agreement.

26 Post balance sheet events

Since the date of approval of the accounts, a tenant has been found for approximately 40 per cent of the space within the New Court Building, although the agreement has yet to be signed. Taking into account lease incentives payable, these new circumstances would not materially change the estimate of unavoidable costs included in the Office Relocation Provision in Note 18.

27 Related party transactions

The CC is a Non-Departmental Public Body (NDPB) sponsored by the DTI and funded by a grant-in-aid from that department. The DTI is regarded as a related party. During the year, the CC had various material transactions with the DTI all of which were conducted at arm's length prices. In addition, the CC had a small number of material transactions with other government departments and other central government bodies, all conducted at arm's length prices.

None of the CC members or key managerial staff undertook any material transactions with the CC during the year, except for remuneration paid for their services and, in the case of members, reimbursement of home to office travel expenses. The CC has sublet part of its office premises at Victoria House to the Competition Service (sponsored by the DTI) under the same terms as its own lease.

28 Financial instruments

FRS 13 Derivatives and other financial instruments: disclosures, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. The CC has limited exposure to risk in relation to its activities. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure note.

The CC is financed by grant-in-aid paid from the DTI and is not therefore exposed to significant liquidity risks. It has no borrowings and no material deposits and all material assets and liabilities are denominated in sterling; therefore it is not exposed to significant interest rate risks or currency risks.

29 Financial targets

Please refer to the Foreword, paragraph 7: Financial performance measure, which comments on financial targets.

30 Intra-government balances

	Debtors: amounts falling due within one year £000	Debtors: amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors: amounts falling due after more than one year £000
<i>Balances with other central government bodies</i>				
Trade Debtors	20			
VAT	74			
Tenant's rent free period	19	340		
Trade creditors			33	
PAYE and National Insurance			404	
Corporation tax			158	
PCSPS contributions			94	
Balances with bodies external to government	1,261	107	1,938	2,415
At 31 March 2005	1,374	447	2,627	2,415

31 Prior period adjustment for change in accounting policy

In 2003-2004 a prior period adjustment was made to accrue for pension liabilities under FRS 17. The pension scheme was valued at £1,075,000 at 31 March 2003. The published financial statements at that date included a £32,000 accrual and therefore a further £1,043,000 accrual was required. The opening balance income and expenditure account (see note 21) at 1 April 2003 was revised from a deficit of £307,000 to a deficit of £1,350,000.

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