

Presented pursuant to the GRA Act 2000 c.20. s.6

# **Cabinet Office Annual Report & Resource Accounts 2003-04**



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# **Cabinet Office**

# **Annual Report & Resource Accounts 2003-04**

**(For the year ended 31 March 2004)**

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

*Ordered by the House of Commons to be printed  
28 October 2004*

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# Annual Report

## Overview

The Cabinet Office Resource Accounts incorporate entities within the departmental boundary, which are the Cabinet Office, including the Prime Minister's Office, and the Government Car and Despatch Agency (GCDA).

Machinery of government changes during the year involved the transfer out of the Office of the Leader of the House of Lords & Lord Privy Seal to the Privy Council Office and the transfer in of Honours and Dignities to the Cabinet Office from Her Majesty's Treasury.

There were significant changes to the Department's leadership and internal structure during 2003-04. On the retirement of Lord Macdonald of Tradeston in June 2003, Douglas Alexander was appointed Minister for the Cabinet Office and Chancellor of the Duchy of Lancaster.

In September 2004, Alan Milburn was appointed as Chancellor of the Duchy of Lancaster and Ruth Kelly was appointed as Minister for the Cabinet Office.

## Operating and Financial Review

### Aim, objectives and strategy

1. The Cabinet Office's aim is to **make Government more effective by providing a strong Centre**. The Department's objectives are to:
    1. Support the Prime Minister in **leading** the Government;
    2. Achieve **co-ordination** of policy and operations across government;
    3. Improve delivery by **building capacity** in departments and the public services; and
    4. **Promote standards** that ensure good governance, including adherence to the Ministerial and Civil Service Codes.
  2. The Cabinet Office Strategy Board was established in 2003 to set strategic direction for the Cabinet Office and to ensure suitable governance arrangements are in place for the management of the Department. The Board reviewed and revised the aim and objectives announced in the 2002 Spending Review. The new aim and objectives, as listed above, better focus the work programme around the Government's priorities. They have been agreed in the 2004 Spending Review (SR2004), along with revised Public Service Agreement (PSA) targets. However, the SR2002 PSA targets still contribute to these objectives.
  3. The Cabinet Office Departmental Plan shows how the work of each of the Department's management units contributes to one or more of these objectives (see **Figure 1**). The Plan also sets out the financial and human resources to be allocated to each unit. The Plan is being developed in the light of the SR2004 to include the Department's strategic targets for the next five years.
  4. The Better Cabinet Office Programme, launched in November 2003, is building the capacity of the Cabinet Office to deliver its objectives. It is addressing business management processes as well as our ability to lead and manage people.
  5. Schedule 5 of the Resource Accounts provides information on resource outturn for each objective. A full description of the work of management units can be found in the 2004 Departmental Report (Cm 6226) published in April 2004.
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**Figure 1: Relationship between management units and departmental objectives**

<b>Management Unit</b>	<b>Supports Objectives</b>
Business Development Division	5
Central Sponsor for Information Assurance	2, 3
Ceremonial Secretariat	1
Civil Contingencies Secretariat	1, 2
Committee on Standards in Public Life	4
Communication Group	5
Corporate Development Group	1, 3, 4, 5
Defence and Overseas Secretariat	1, 2
Economic and Domestic Secretariat	1, 2
European Secretariat	1, 2, 3
Financial Management Division	5
Government Information and Communication Service	1, 2, 3, 4
Her Majesty's Stationery Office	4, 5
Histories, Openness and Records Unit	1, 4, 5
Human Resources	5
Independent Offices	4
Infrastructure Division	5
Intelligence and Security Committee	4
Intelligence and Security Secretariat	1, 2
Internal Audit Service	5
Office of Public Services Reform	1, 2, 3
Office of the e-Envoy (e-Government Unit)	3
Office of the Government Chief Whip (House of Commons)	1, 2, 5
Office of the Government Chief Whip (House of Lords)	1, 2, 5
Parliamentary Counsel Office	1, 2
Prime Minister's Delivery Unit	1, 3
Prime Minister's Office	1
Private Offices Group (including Propriety and Ethics)	4, 5
Regulatory Impact Unit	3
Shareholder Executive <sup>1</sup>	3
Strategy Unit	1, 3

Note: A '5' indicates that the unit performs a business support role.

<sup>1</sup> This unit transferred to the Department of Trade and Industry in July 2004.

## Operating Review

6. The revised Public Service Agreement targets, agreed in the SR2004 (Cm 6237), were published in July 2004. The relationship between SR2002 PSA targets and the SR2004 PSA targets will be explained in the forthcoming Autumn Performance Report. The Cabinet Office is still working to achieve six targets agreed as part of the 2002 Spending Review (SR2002):

<p><b>Target 1:</b> Ensure departments deliver better regulation through:</p> <p>(i) full compliance with the Regulatory Impact Assessment process; and</p> <p>(ii) delivering the commitments in the Regulatory Reform Action Plan, including over 60 Regulatory Reform Orders by 2005.</p> <p><b>Target 2:</b> Improve public services by working with departments to help them meet their PSA targets, consistently with the fiscal rules. (Joint target with HM Treasury.)</p> <p><b>Target 3:</b> Ensure departments meet the Prime Minister's targets for electronic service delivery by Government: 100 per cent capability by 2005, with key services achieving high levels of use.</p> <p><b>Target 4:</b> Ensure that the Civil Service becomes more open and diverse, by achieving by 2004-05 the agreed targets of: 35% Senior Civil Service (SCS) to be women; 25% of top 600 posts to be filled by women; 3.2% of the SCS to be from ethnic minority backgrounds and 3% of the SCS to be people with disabilities.</p> <p><b>Target 5:</b> Improve public services by working with departments to redesign services around the needs of customers and embed the four principles of public service reform, with progress measured by survey evidence.</p> <p><b>Target 6:</b> Achieve a 2.5 per cent saving per year on administrative resources.</p>
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7. The 2004 Departmental Report (Cm 6226) and the Autumn Performance Report (Cm 6055) published in December 2003 provide details of progress against these targets. The PSA Technical Note contained in the Autumn Performance Report provides details of how progress against the targets is measured.
8. The remainder of this section outlines other significant features of the Cabinet Office's performance in 2003-04 against the four departmental objectives.

### ***Supporting the Prime Minister in leading the Government***

9. The Prime Minister's Office (No 10) is funded from the Cabinet Office account, and works with the Cabinet Office to provide central direction for the development, implementation and presentation of Government policy. During 2003-04, No 10 continued to drive forward the Government's programme of reform in the public services. On the international side, No 10 pushed forward the Government's foreign policy to rebuild Iraq, tackle terrorism, and build a strong Europe based on nation states.
10. The Cabinet Committee Secretariats support the Prime Minister in the co-ordination and development of cross-government policy on economic and domestic affairs; EU strategy; and on foreign, security and defence matters. The Prime Minister's Delivery Unit provides the Prime Minister with regular updates on public service delivery, and supports departments to help them to deliver the Prime Minister's priorities. The Strategy Unit provides advice commissioned by the Prime Minister on major strategic issues.
11. The Ceremonial Secretariat supports the Prime Minister in the preparation of his Honours Lists and deals with honours and medals policy. During 2003-04, two Honours Lists following agreed criteria were delivered to the Prime Minister within set deadlines, and a separate Iraq List was published in October 2003.

***Achieve co-ordination of policy and operations across government***

12. The Cabinet Office has continued to play a key role in the co-ordination of policy and operations across government. The Department works with the Treasury and other departments to provide strategic management and direction on a wide range of issues, many of which have implications for all government departments and the public sector as a whole. Much of this work is undertaken by the Cabinet Committee Secretariats.
  13. The Civil Contingencies Secretariat's role is to strengthen the UK's resilience to disruptive challenges that can lead to, or result in, crisis. During 2003-04, the Draft Civil Contingencies Bill was published for full public consultation and underwent pre-legislative scrutiny in Parliament. The Bill was introduced to Parliament in January 2004. Together with the accompanying non-legislative measures, it will deliver a single framework for civil protection in the UK that meets the challenges of the 21<sup>st</sup> century.
  14. During 2003 the UK resilience effort was re-organised into what is now known as the UK Capability Programme. This consists of 17 projects such as the central, regional and local response, essential services, infectious diseases and informing and warning the public, each led by the appropriate government department. Each project has a delivery plan and regularly reviewed milestones to measure progress.
  15. The Intelligence and Security Secretariat has provided a substantial flow of timely, policy-relevant assessed intelligence in support of the government's priorities, particularly in the fight against international terrorism and in support of the UK commitment to Iraq. It has successfully led work on intelligence community funding and co-ordinated a range of high profile cross-cutting issues relating to the Intelligence and Security Agencies and the wider Intelligence Community. Security Policy Division (SPD) has also been leading work to mitigate the terrorist threat against Whitehall and the wider Government estate. Work continued towards the delivery of the SCOPE Programme, a cross-departmental information strategy programme aimed at improving the way in which the Intelligence and Security Community works. During the year the Secretariat was engaged in supporting the Government response to three major enquiries.
  16. The Defence and Overseas Secretariat (DOS) continues to provide timely advice to the Prime Minister and Ministers on a wide range of foreign and defence policy issues. The Secretariat has been at the forefront in co-ordinating the Government's policy in Iraq following the end of the conflict with regular meetings of ministers, senior officials and video conferencing with officials in Iraq. Afghanistan has continued to be an important focus, with the co-ordination of policies to promote stable political development, greater security and progress in agreeing and implementing the international plan to reduce narcotics production. The successful outcome of the Constitutional Loya Jirga in January 2004 was an important milestone.
  17. DOS continues to play a major role in the co-ordination of work in the UK's fight against international terrorism, providing an example of best practice in joining up the activities of different parts of government in policy areas which do not fall naturally to a single department. In November 2003, the Secretariat led the UK's contribution to the first joint EU/NATO crisis management exercise. The exercise achieved all its aims and was valued by the member states.
  18. The European Secretariat's key objectives are to help drive forward the Prime Minister's European agenda and to ensure the effective co-ordination of EU policy work within Government. A number of key EU negotiations were concluded or significantly progressed during the year, including Accession Treaties, signed in April 2003, for ten new Member States to join the EU on 1 May 2004. A significant CAP reform package was also concluded. In the Convention on the Future of Europe and the inter-Governmental Conference that followed, the United Kingdom's interests were protected and real progress was made towards an agreement improving the EU's structures and processes. A new EU Constitutional Treaty was concluded in June 2004.
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19. The Central Sponsor for Information Assurance unit (CSIA) was created in April 2003. Its purpose is to provide continuing assurance that risks to information systems that underpin key public interests are being managed appropriately. A key early success was the production of the UK Government Information Assurance Strategy that underpins the current objectives of CSIA and partner public sector organisations. Implementation of the strategy is now in progress.
20. The role of the Government Information and Communications Service (GICS) is to equip and help the Government of the day to communicate with its many target audiences as effectively as possible using all modern communication methods. The Government has accepted the recommendation of the Phillis Review to appoint a Permanent Secretary Government Communications and Howell James took up this post in July 2004. During 2003-04, GICS has successfully met increasing demand for recruits from depleted resources by setting up systems to enable departments to manage most external recruitment to GICS standards. Considerable progress in developing protocols for handling the communications aspects of crisis and emergencies has been made over the past year. These include working closely with the media to ensure that public information can be circulated rapidly and accurately. The Government News Network (GNN) made a major contribution to improving regional resilience by establishing Regional Media Emergency Forums.

### ***Improve delivery by building capacity in departments and the public services***

21. The Cabinet Office aims to enhance the capacity of departments and the wider public sector for effective, innovative and efficient public service delivery.
  22. The Prime Minister's Delivery Unit has continued to work closely with HM Treasury and stakeholder departments to help them meet their Public Service Agreement (PSA) targets. Impact to date has been measured by departmental progress on delivery of PSA targets (using performance measures and indicators).
  23. The primary focus of the Office of the e-Envoy (now the e-Government Unit) has been to improve the delivery of public services and achieve long term cost savings by joining-up online government services around the needs of customers. Opportunities to access the internet are now available to all – one in two homes now has internet access compared with one in ten in 1999, and the UK's pro-competitive policies have helped drive down internet access charges to among the lowest in the world. The UK is now a world leader for electronic business. 79% of businesses now have internet access, and there were £23.3 billion e-commerce transactions last year, up 39% from 2002. The latest Electronic Service Delivery returns carried out at the end of Q1 2004 show that 74 % of government services were available electronically, with departments continuing to work toward 100%. The e-Government Unit continues to focus on increasing the take-up of key services. In March 2004, Directgov - a new service designed around the needs of the user – was launched, making it much easier to find and access government information and services online. The new post of Head of e-Government has been created to give strategic leadership to the application of IT within government to support the reform and modernisation of Britain's public services.
  24. The Corporate Development Group (CDG) aims to improve Performance through People by improving leadership and skills throughout the Civil Service, making HR services effective across government and developing an employment policy framework to support the reform agenda. CDG also delivers a number of services on behalf of the civil service as a whole, including pensions, fast stream recruitment, training and development. During 2003-04, responsibility for Performance Partnerships transferred to CDG and draft performance partnership agreements (PPAs), defining the capacity-building priorities, were agreed for the 19 biggest departments. Practical, prioritised, targeted and specific support and challenge is being provided to departments to aid them in the delivery of their PPAs. The Improving Leadership Capacity programme was launched by CDG in September 2003 and implementation is now well under way, including the High Potential Development Scheme which is identifying and helping to bring on quickly those with the potential to reach the very top of the Civil Service.
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25. The Office of Public Service Reform (OPSR) contributes to the Cabinet Office's role in providing leadership to the reform programme for public services. It showcased examples of excellent services in its publication *Leading from the Front Line*, launched by the Prime Minister in October 2003, and provided the first snapshot of Customer Satisfaction with Key Public Services, drawn from 21 large-scale customer surveys across government. OPSR re-launched Charter Mark, to become the customer service standard for public services, with assessment criteria reflecting the four principles of reform (standards and accountability; devolution; flexibility; and choice). It also launched the Government's first policy on the inspection of public services, and supported the Cabinet sub-committee, PSX(l), established to oversee its implementation.
26. The Regulatory Impact Unit's (RIU) aim is to ensure that all new and existing regulation is necessary, meets the principles of better regulation and imposes the minimum burden. Over 300 of the 650 deregulation and simplification measures in the Regulatory Reform Action Plan have now been completed; virtually all Government proposals have a published Regulatory Impact Assessment (RIA) and 17 Regulatory Reform Orders had been completed by end March 2004, delivering significant benefits to a range of sectors. The RIU has issued revised Regulatory Impact Assessment (RIA) guidance, published a shorter, sharper Code of Conduct (January 2004) on how consultations should be carried out, and published the *Transposition Guide: How to Implement European Directives Effectively*, bringing together all Cabinet Office guidance on transposition into one easily accessible source. A number of 'Making A Difference' reports have been published, covering subjects such as Central Civil Government Procurement, the Criminal Justice System and Network Rail, which include specific outcomes and agreed changes to reduce unnecessary bureaucracy for front-line public sector staff.
27. The RIU is actively working to reduce the burden of existing regulation in the private sector and to promote better regulation in Europe. This work is delivering significant results - international surveys show the United Kingdom to be at the forefront of regulatory reform. The World Bank's "Doing Business in 2004" ranked the UK in the top 10 countries (out of 130) with the least regulation. The OECD "Economic Survey of the UK" (published January 2004) found that "...economic and administrative regulations inhibiting competition and barriers to trade are amongst the lowest in the OECD".

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

28. The Cabinet Office has a key responsibility for promoting and maintaining high standards throughout the public sector. The Department aims to achieve this objective through direct promotion and advocacy of the codes of practice governing the work of ministers, civil servants and special advisers, and by providing effective support to departments and to a number of external bodies.
29. The Propriety and Ethics Team is responsible for providing advice about issues arising under the Ministerial Code, Civil Service Code and Code of Conduct for Special Advisers. The Team has taken forward the Government's commitment to start consultation on a draft Civil Service Bill this Parliamentary Session. It is working closely with the Parliamentary Ombudsman and the wider Ombudsmen community, to explore what more can be done under existing statutory arrangements to promote joint working between Ombudsmen, and ensure that Ombudsmen arrangements are fit for purpose. The Team co-ordinated work on a number of Government responses in 2003-04, including the Government Response to the Public Administration Select Committee's Third Report of Session 2002-03 on Ombudsman Issues published in July 2003, and the Government's Response to the Ninth Report from the Committee on Standards in Public Life, published in September 2003.

30. Her Majesty's Stationery Office (HMSO) delivers access to, and re-use of, government information through innovative e-services at HMSOnline [www.hmso.gov.uk](http://www.hmso.gov.uk). During 2003-04, HMSO shared the joint policy lead, with DTI, on the successful negotiation of the European Directive on the re-use of public sector information. 4,718 licences were issued via the on-line Click-Use Licence system by end March 2004. The Information Fair Trader Scheme, setting national standards for the re-use of public sector information, extended its reach during 2003-4 to include the Environment Agency, Met Office and the Land Registry. The Advisory Panel on Crown Copyright was launched in April 2003 to advise Government on how to exploit and maximise the value of its public sector information assets. HMSOnline was re-launched in May 2003 with a new look, making it easy for users to use, share and re-use government information. HMSOnline regularly appears in the top 20 list of government websites and is currently the most visited site (averaging at 20 million hits per month).

## Performance against Parliamentary Control Totals

31. Authority was sought in the Spring Supplementary Estimate (HC 350) for net resources of £279 million, net voted capital of £86.1 million and net cash requirement of £303 million. Final outturn for 2003-04 recorded savings against net resource outturn of £26.2 million, against net voted capital outturn of £30.2 million and against net cash requirement of £52.1 million (see **Figure 2** below).

Savings against net resource outturn of £26.2 million may be attributed to lower than expected accommodation costs and capital charges.

Savings against net voted capital outturn of £30.2 million may be attributed to rescheduling spend on e-Government projects and the SCOPE programme.

Further analysis may be found within the Accounting Schedules and Notes to the Accounts.

**Figure 2**

	Estimate	Outturn	Variance Saving / (Excess)
	£ million	£ million	£ million
<b>Gross Administration Cost Limit</b> (Note 9)	<b>226.4</b>	<b>158.3</b>	<b>68.1</b>
<b>Net Administration Cost Limit</b> (Note 9)	<b>1.8</b>	<b>1.4</b>	<b>0.4</b>
Departmental Expenditure Limit	277.3	251.1	26.2
Annually Managed Expenditure	0.4	0.4	–
<b>Resource Budget</b>	<b>277.7</b>	<b>251.5</b>	<b>26.2</b>
Machinery of Government Transfer of Functions	1.3	1.3	–
<b>Net Resource</b>	<b>279.0</b>	<b>252.8</b>	<b>26.2</b>
<b>Net Voted Capital</b>	<b>86.1</b>	<b>55.9</b>	<b>30.2</b>
<b>Adjustments from Resource to Cash Spend</b>	<b>(62.1)</b>	<b>(57.8)</b>	<b>(4.3)</b>
<b>Net Cash Requirement</b> (Schedule 1)	<b>303.0</b>	<b>250.9</b>	<b>52.1</b>

## Investment for the Future

32. The Departmental Investment Strategy (DIS) published in December 2002 sets out Cabinet Office plans for investment from 2003-04 to 2005-06. The DIS can be found on the website at [www.cabinet-office.gov.uk/reports/publications/psa/investment\\_strategy/report2002.pdf](http://www.cabinet-office.gov.uk/reports/publications/psa/investment_strategy/report2002.pdf).

## Financial Review

33. The great majority of the Cabinet Office's funding is provided directly by Parliament, and the Department is accountable to Parliament for all its expenditure.
34. Financial management within the Cabinet Office is improving significantly. The Managing Director personally led a comprehensive planning round covering 2004-05 to 2007-08. The personal leadership of the Managing Director, together with the close involvement of the Finance and Business Development directors, has brought new perspectives and in-depth understanding of the issues involved. The Strategy Board have seen and discussed strategic issues underpinning future direction and the resources required.

## Developments after 31 March 2004

35. Cabinet Office and ITNET UK Limited (ITNET) entered into an agreement dated 25 July 2003 for the provision of secure data centre and hosting services. The Agreement was valued at £83 million. The project with which the Agreement is associated is known generally as "True North". The Agreement contemplated an "Implementation Phase" and an "Operational Phase" for each of the three service workstreams (Knowledge Network, DotP and Government Gateway). The Implementation Phase involved the development and delivery of the infrastructure platform on which each of the Services would then be managed in the Operational Phase.
36. Cabinet Office allege serious flaws in ITNET's technical design and project implementation plans have caused faults in the infrastructure build and serious and significant delay in Service delivery. ITNET missed several key milestones between August 2003 and June 2004 resulting in material breaches of the Agreement. The impact of these breaches led to severe delays to the point where ITNET could no longer successfully deliver against the contract dates. In order to protect existing services the Cabinet Office terminated the Agreement on 28 June 2004.
37. Following legal advice the Cabinet Office has claims for damages against ITNET. Cabinet Office and ITNET are currently working towards mediation and the Cabinet Office is reserving its position.

## Pensions

38. Present and past employees of the Cabinet Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The financial status of the scheme is reported in a separate PCSPS scheme statement. The accounting policy adopted for pensions costs is set out at Note 1.14 to the Accounts. Details of staff pension entitlements are included at Note 4 to the Accounts.

## Remuneration of Ministers and the Cabinet Office Strategy Board

39. Ministers' remuneration is recommended by the Senior Salaries Review Body and approved by Parliament. Executive Board members' remuneration is determined by the Head of the Civil Service with reference to the relevant Senior Salaries Review Body report. Details of remuneration are provided at Note 4 to the Accounts.

### Ministers

40. The Ministers with responsibility for the Cabinet Office during the year were:

**The Rt Hon The late Lord WILLIAMS of MOSTYN QC**

**Leader of the House of Lords & Lord Privy Seal**

*until 12<sup>th</sup> June 2003*

**The Rt Hon The Lord MacDONALD of TRADESTON CBE**

**Minister for the Cabinet Office & Chancellor of the Duchy of Lancaster**

*until 12<sup>th</sup> June 2003*

**Douglas ALEXANDER Esq MP**

**Minister for the Cabinet Office & Chancellor of the Duchy of Lancaster**

*from 13<sup>th</sup> June 2003*

**Minister of State** *until 12<sup>th</sup> June 2003*

**The Rt Hon Dr John REID MP**

**Minister without Portfolio & Party Chair**

*until 3<sup>rd</sup> April 2003*

*not remunerated*

**The Rt Hon Ian McCARTNEY MP**

**Minister without Portfolio & Party Chair**

*from 4<sup>th</sup> April 2003*

*not remunerated*

On 9<sup>th</sup> September 2004, Alan Milburn was appointed as Chancellor of the Duchy of Lancaster.

On 10<sup>th</sup> September 2004, Ruth Kelly was appointed as Minister for the Cabinet Office.

### Secretary of the Cabinet

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

**Sir Andrew TURNBULL KCB CVO**

**Secretary of the Cabinet and Head of the Home Civil Service**

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## Cabinet Office Strategy Board

42. The role of the Cabinet Office Strategy Board is to give corporate strategic leadership to the Department. It has replaced the Cabinet Office Management Board which disbanded in March 2003.

The Members of the Strategy Board during the year were:

### Chairman

**The Rt Hon The Lord MacDONALD  
of TRADESTON CBE**

**Minister for the Cabinet Office & Chancellor  
of the Duchy of Lancaster**  
*until 12<sup>th</sup> June 2003*

**Douglas ALEXANDER Esq MP**

**Minister for the Cabinet Office & Chancellor of the  
Duchy of Lancaster**  
*from 13<sup>th</sup> June 2003*

### Internal Membership

**Douglas ALEXANDER Esq MP**

**Minister of State**  
*until 12<sup>th</sup> June 2003*

**Sir Andrew TURNBULL KCB CVO**

**Secretary of the Cabinet and Head of the Home Civil  
Service**

**Sir David OMAND GCB**

**Security and Intelligence Co-ordinator**

**Colin BALMER CB**

**Managing Director, Cabinet Office**  
*from 21<sup>st</sup> July 2003*

**Paul BRITTON CB**

**Head of Economic and Domestic Affairs Secretariat**

**Ivan ROGERS**

**Principal Private Secretary to the Prime Minister**  
*from 5<sup>th</sup> January 2004*

**Jeremy HEYWOOD CB**

**Principal Private Secretary to the Prime Minister**  
*until 4<sup>th</sup> January 2004*

### External Membership

**Millie BANERJEE CBE**

**Non-Executive Chair, Cabinet Office Audit and Risk  
Committee**  
*not remunerated*

**The Lord BIRT**

**an unpaid strategy adviser to the Prime Minister**  
*not remunerated*

**Gus O'Donnell CB**

**Permanent Secretary, HM Treasury**  
*not remunerated*

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

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44. Colin Balmer took up the new post of Managing Director of the Cabinet Office in July 2003. He is responsible to the Minister for the Cabinet Office and reports to the Cabinet Secretary and Head of the Home Civil Service. He is the Permanent Head of the Cabinet Office and is also accountable to Parliament as Accounting Officer for the Cabinet Office Account and for the Civil Superannuation Account.
45. He was appointed by the Cabinet Secretary and Head of the Home Civil Service, in consultation with the then Minister for the Cabinet Office and the then Permanent Secretary. The appointment is not time-limited. Mechanisms for termination of the appointment are as set out in the Civil Service Code.
46. The Government Car and Despatch Agency has its own management board; details of which may be found in its Annual Report and Accounts for 2003-04.

### Permanent Secretaries

47. Other Permanent Secretary posts were held during the year by:

<b>Sir David MANNING KCMG</b>	<b>Head, Defence and Overseas Secretariat and the Prime Minister's Foreign Policy Adviser</b> <i>until 27<sup>th</sup> July 2003</i>
<b>Sir Stephen WALL KCMG</b>	<b>Head, European Secretariat and the Prime Minister's European Adviser</b>
<b>Sir Geoffrey BOWMAN KCB</b>	<b>First Parliamentary Counsel</b>
<b>Sir Nigel SHEINWALD KCMG</b>	<b>Head, Defence and Overseas Secretariat and the Prime Minister's Foreign Policy Adviser</b> <i>from 26<sup>th</sup> August 2003</i>

### Policies on Equal Opportunities & Disability

48. The Cabinet Office is an equal opportunities employer and is committed to providing equal opportunities for all, irrespective of age, disability, ethnicity, gender, religion, sexuality, transgender and work patterns.
49. The Cabinet Office will not tolerate any form of unfair discriminatory behaviour, nor harassment, bullying or victimisation by units, teams, managers or individuals.
50. Cabinet Office policies and practices reflect the Civil Service Management Code and relevant UK legislation, including legislation implementing European Union directives.

### Employee Consultation

51. The Cabinet Office recognises the importance of good employee relations to the achievement of its objectives and consultation with employees and their representatives is key to this.
52. Regular communication and consultation takes place with staff through a variety of media including intranet, weekly staff newsletter and team briefing meetings. Larger consultation exercises take place on important developments. The Department has a partnership agreement with the Trade Unions.
53. There are also diversity networks which represent particular groups of staff including staff with disabilities and ethnic minority staff and the department actively uses these networks to consult on particular issues.

## **Policy on Payment of Suppliers**

54. The Cabinet Office is committed to the Better Payment Practice Code on prompt payment and aims to pay all undisputed invoices within the terms of the contract, usually 30 days of receipt of a valid invoice. During the year the Department paid 97.96% of invoices within 30 days (2002-03: 95.46%). The Department paid £135 (2002-03: £30) interest charges levied on late payment of invoices for the year ended 31st March 2004.

## **Basis of Accounts**

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

## **Auditors**

56. The financial statements are audited by the Comptroller and Auditor General, who is appointed under statute and reports to Parliament on the audit examination. Auditors' remuneration and expenses are disclosed at Note 5 to the Accounts.



## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the Department is required to prepare resource accounts for each financial year in conformity with a Treasury direction detailing resources acquired, held or disposed of during the year and use of resources by the department during the year.

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

HM Treasury has appointed the Permanent Head of Department as Accounting Officer of the department with responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

- observe 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 *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

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

## Statement on Internal Control

### Scope of responsibility

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

There are established review mechanisms and there is a co-ordinated approach across the Department to support this process. The Strategy Board, chaired by the Minister for the Cabinet Office, identifies, owns and monitors the Department's corporate risks. The Audit and Risk Committee (ARC) meets regularly and is chaired by a non-executive director who is also a member of the Strategy Board. Responsibility for the system of internal control for the Government Car and Despatch Agency has been delegated to the Chief Executive of the agency by me.

### 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.

### Capacity to handle risk

In the second half of 2003-04, the Cabinet Office conducted a review of its internal risk management processes and performance. The Risk Management Assessment Framework (RMAF) recommended by HM Treasury was used to assess our current position, and to identify the key areas of weakness to be addressed.

The main output of the review was a Risk Management Action Plan, a ten-point programme to deliver significant improvements to the Department's risk management capability by 31 March 2004. The Action Plan was not fully implemented until the final quarter of the financial year. This meant that, while the improvements were not in place for the whole of the period covered by these accounts, the Cabinet Office has made good progress in improving risk management in the Department.

A departmental *Statement of Approach to Risk* was agreed by the Strategy Board and the Audit and Risk Committee. This document sets out the Cabinet Office's attitude to, and appetite for, risk; describes when and why risks need to be managed and establishes the respective responsibilities of the Managing Director, Strategy Board, Audit and Risk Committee, Risk Improvement Manager, Internal Audit Service and Heads of Management Units in the overall framework.

New guidance on managing risk was provided to staff via a new Risk Management Website on the departmental intranet. Through active participation in the Treasury-led Risk Improvement Managers' network, staff in Financial Management Division have ensured that this guidance reflects accepted good practice.

The new guidance has been designed to:

- Provide a high level framework for managing risk throughout the Department;
- Outline the key principles of successful risk management;
- Deliver greater corporate consistency;
- Minimise additional burdens on Cabinet Office staff, by ensuring that the new requirements can be integrated into existing processes; and
- Ensure that risk management is not a one-off activity, but an integral part of planning / review / management operations.

The Department is also addressing the risk management training and awareness needs of its staff through:

- Risk management workshops;
- General introductions to the new Risk Management Framework; and
- Communication from myself to Heads of Management Units and Local Finance Officers.

A Balanced Scorecard approach to internal performance reporting, based around the corporate risks has been developed. The Scorecard captures the latest information relevant to each risk, and presents this in an appropriate format for regular review by the Board. The Scorecard was fully operational by July 2004.

## **The risk and control framework**

### **Risk Management Framework**

A new Risk Management Framework was launched in March 2004. Key features of this Framework, under each of the five capabilities in the RMAF, are as follows:

#### *Leadership*

The Cabinet Office Strategy Board (COSB) has identified 8 corporate-level risks, and has assigned ownership of these to individual COSB members. The Department has defined the appetite for taking on risk in the *Statement of Approach to Risk*. The *Statement of Approach* also explicitly encourages staff to undertake well-managed risk taking.

#### *Risk strategy and policies*

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

The strategy:

- Is endorsed by the Accounting Officer, Strategy Board, and Audit and Risk Committee;
  - Sets out our attitude to risk, including an explicit policy to encourage well-managed risk taking;
  - Defines the structures for the management and ownership of risk;
  - Indicates the way in which risk issues are to be identified, assessed, responded to, reduced, owned, recorded and monitored;
  - Ensures common understanding of terminology used in relation to risk issues;
  - Defines the structures for gaining assurance about the management of risk;
  - Defines the criteria that will inform assessment of risk and the definition of specific risks as 'critical'; and
  - Defines the way in which risk registers and risk evaluation criteria will be regularly reviewed.
-

### *People*

The Department's Statement of Approach to Risk encourages staff to identify and take opportunities by managing risks well. Revised guidance on managing risk is available to all staff via the intranet, and risk management workshops are offered to management units. Good risk management appears as an effective behaviour in the competence frameworks for both SCS and non-SCS staff. Staff have access to expertise in the Internal Audit Service, and in the Financial Management Division.

### *Partnerships*

The Department has formulated new guidance on managing risk when working in partnership with other organisations. The central risk register demonstrates that risks associated with working with other organisations are routinely identified and managed.

### *Processes*

The Risk Management Framework specifically covers the application of the general principles to policy making, project management, delivery planning and working in partnership with other organisations.

The new Framework emphasises that explicit consideration should be given to the nature of the objective at risk and the various dependencies, including the deadlines in place, resources required and the range of stakeholder interests. The Framework includes criteria to determine risk ownership, and requires the active consideration of options for controlling risk to an acceptable level of residual exposure.

The Framework also incorporates specific criteria for evaluating the magnitude of risks, generating a traffic-light assessment for both likelihood and impact of maturity. The criteria encompass a range of factors, including potential impact on finances, stakeholders, reputation and strategy; the estimated probability of occurrence and the existence of precedents. A matrix gives an overall traffic-light rating for each risk, based on its likelihood and impact.

The Framework specifies that corporate and management unit risks should be recorded on the Monitoring and Reporting System (MARS). In addition, a new standard format risk register has been developed for use throughout the Department.

Risks must be reviewed at least once per quarter. A work programme has been developed for future Strategy Board meetings, to ensure that the corporate risks are also reviewed quarterly. The Framework requires that 'critical' risks be reported to the next level of management.

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

## Other controls

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

- An annual budget endorsed by the Strategy Board and reviewed by them during the year;
- Regular reviews of performance and expenditure within the new Balanced Scorecard reporting system;
- A framework document setting out delegated authorities and the publication of an annual report and accounts for the Government Car and Despatch Agency;
- Mandatory six monthly stewardship reports from all Management Units; and
- Delegation letters issued to Heads of Management Units, with supporting advice and guidance available on the intranet.

The department has an Internal Audit Service, which carries out its work in accordance with the Government Internal Audit Standards. The work of the Internal Audit Service is informed by an analysis of the risk to which the Department is exposed and annual internal audit plans are based on this analysis. Although this is not a full risk-based assessment, it is increasingly informed by risk analysis and both that analysis and the resultant internal audit plans are discussed and endorsed by the department's Audit and Risk Committee and approved by me. The Audit and Risk Committee is attended by representatives of the National Audit Office (NAO) and chaired by a non-executive director. At least annually, the Internal Audit Director (IAD) provides me with a report on internal audit activity in the department which includes the IAD's independent opinion on the adequacy and effectiveness of the department's system of internal control.

For 2003-04, the IAD has been able to give me reasonable assurance that the department's framework of control is sound. However, areas for improvement have been identified including IS applications; hospitality and gifts; health and safety; and contract letting, management and closure. There is also work to be done in improving financial controls, in particular in the areas of grants and grants-in-aid, fixed assets and financial transactions. The IAD has also advised me that, although the Cabinet Office has produced a comprehensive framework for the management of risk, there is still some way to go in embedding risk management in the decision making process.

No significant internal control issues arose during the year.

## Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit and Risk Committee which oversees the work of the internal auditors and the executive managers within the department, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit and Risk Committee and a plan to address weaknesses, and ensure continuous improvement of the system is in place. I also take assurance from the Statement on Internal Control produced by the Government Car and Despatch Agency and published with their annual report and accounts. The individual statements of assurance that I have received from Heads of Management Units have provided reasonable assurance that the systems of internal control are sound and operating effectively. However, the Risk Management Framework was not in place for the full financial year.

## Planned improvements

With recent improvements to our risk management and review processes I expect the department to be able to complete a full statement of internal control for the year ending 31 March 2005.

Now that we have the right strategy, policies, processes and leadership in place, we will work closely with individual management units, projects and programmes to embed the new departmental Framework throughout the organisation. We will focus attention on the major areas of our activity in which we work in partnership with other organisations to deliver key objectives. We will also aim to ensure that the upward reporting and Balanced Scorecard systems operate effectively.

We will continue to take steps to develop an organisational culture that is more risk-aware, and more disposed to the treatment of risk management as a routine element of our work.

In order to achieve this, we will ensure that risk management continues to enjoy a high profile within the Department, with clear support and engagement from our Minister and senior officials.

I am pleased to report that significant progress has been made on improving the Cabinet Office's financial management capability since the publication of the 2002-03 accounts. Two new permanent team members have been recruited to the Resource Accounting Team and the central team in the Financial Management Division has worked very closely with finance staff in the management units to ensure that they understand the information requirements for year-end close. As a consequence, there has been a significant improvement in the quality and timeliness of information flows between the management units and the central team. I established the Cabinet Office Financial Management Information Project (COFMIP) in February 2004 to bring about improvements in the Department's primary financial structures and systems. The COFMIP team has worked closely with the Resource Accounting Team and, as a result, significant time-savings have been realised across a range of year-end processes. Although there is clearly much work to be done to enable the fully automated production of Resource Accounts, work is in hand to achieve this in time for the production of the 2004-05 accounts.

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

I certify that I have audited the financial statements on pages 25 to 64 under the Government Resources and Accounts Act 2000. 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 33 to 37.

### **Respective responsibilities of the Accounting Officer and Auditor**

As described on page 15, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. 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 Government Resources and Accounts Act 2000 and Treasury 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 Annual Report is not consistent with the financial statements, if the Department 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 16 to 20 reflects the Department'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 Department'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 Department in the preparation of the financial statements, and of whether the accounting policies are 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 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 Cabinet Office at 31 March 2004 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; 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.

My Report on these financial statements is at pages 23 to 24.

John Bourn  
Comptroller and Auditor General

22 October 2004

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

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

## Introduction

1. I disclaimed from providing an audit opinion on the 2002-03 Resource Accounts of the Cabinet Office (the Department) because of the late submission of accounts to me for audit and the limitation this placed on my staff to obtain all the information and explanations that I considered necessary for the purposes of the audit within the time allowed by statute. I also qualified my regularity opinion on the Department's 2002-03 Resource Accounts in the light of reported expenditure of £2.4 million in excess of the provision voted by Parliament.
2. As a consequence of my Report on the Department's 2002-03 Resource Accounts <sup>1</sup> and the subsequent Public Accounts Committee Report on Excess Votes 2002-03 <sup>2</sup>, my staff have monitored the Department's progress in its development and implementation of risk management procedures and the Department's initiatives to strengthen its financial management capability.

## Improvements in Risk Management and Financial Capability

3. In his Statement on Internal Control, the Accounting Officer reports that the Department has introduced a number of initiatives to enhance the Risk Management Framework and that he expects the Department to complete a full Statement on Internal Control for the year ending 31 March 2005. He also reports that significant progress has been made in improving the Department's financial capability. My staff have noted the introduction of a number of steps during 2003-04 to improve the quality and timeliness of financial management and reporting. While some developments such as the launch of the project to facilitate production of automated monthly management accounts has yet to be fully rolled out, other changes have had an immediate and positive effect on the production of the 2003-04 Resource Accounts. I am pleased to note that these changes have enabled the Department to improve substantially on its performance last year and produce the Resource Accounts some three months earlier than for 2002-03.

## Review of 2002-03 Balances Carried Forward

4. The closing balances from the 2002-03 Resource Accounts appear within the 2003-04 Resource Accounts as comparative figures and are covered by my audit opinion on the 2003-04 accounts. In the course of the preparation of the 2003-04 Resource Accounts the Department's finance staff carried out work to validate these brought forward balances. Apart from the need to restate 2002-03 figures to reflect Machinery of Government Changes implemented in June 2003, the Department reports at note 3 to the accounts that no other adjustments are required that impact upon the 2002-03 reported expenditure and, consequently, the net resource outturn and level of excess net resource expenditure for 2002-03 are as previously stated.

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<sup>1</sup> Cabinet Office 2002-03 Resource Accounts: HC 185 Session 2003-04

<sup>2</sup> Excess Votes 2002-03 Committee of Public Accounts: Thirteenth Report 2003-04

5. My staff have undertaken a review of the balances carried forward. This included an assessment of the likelihood of material error remaining within each line item in the account. As a result of both this review and the work done by the Department's finance staff, I have concluded that the restated 2002-03 figures give a true and fair view in the context of the 2003-04 Resource Accounts.
6. I am able to confirm, therefore, that net total resource outturn in excess of the provision voted by Parliament, as previously reported in the 2002-03 Resource Accounts, remains unchanged. As a result of my staff's audit examination of 2003-04 transactions and balances, together with my conclusion on the 2002-03 comparatives, I am able to provide an unqualified opinion on the Cabinet Office 2003-04 Resource Accounts.

John Bourn  
Comptroller & Auditor General

22 October 2004

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London SW1W 9SP

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## Schedule 1

### Summary of Resource Outturn 2003-04 (£000s)

	2003-04						2002-03	
	Estimate			Outturn			Restated	
	<i>Gross expenditure</i>	<i>A in A</i>	<i>NET TOTAL</i>	<i>Gross expenditure</i>	<i>A in A</i>	<i>NET TOTAL</i>	<i>Net total outturn compared with estimate: saving / (excess)</i>	<i>Prior-year outturn</i>
Request for resources 1 (see Notes 8, 12 and 37)	357,910	78,873	279,037	330,782	77,975	252,807	26,230	359,115
<b>Total resources</b>	<b>357,910</b>	<b>78,873</b>	<b>279,037</b>	<b>330,782</b>	<b>77,975</b>	<b>252,807</b>	<b>26,230</b>	359,115
Non-operating cost A in A (see Note 8)	–	–	5,469	–	–	4,887	(582)	442
<b>Net cash requirement</b>	–	–	<b>303,090</b>	–	–	<b>250,937</b>	<b>52,153</b>	372,841

### Summary of income payable to the Consolidated Fund

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

	<i>Note</i>	Forecast 2003-04		Outturn 2003-04	
		<b>Income</b>	<b>Receipts</b>	<b>Income</b>	<b>Receipts</b>
Total	7	–	–	8	1,030

Explanation of the variation between  
Estimate and outturn (net total resources):

Savings of £26.2 million may be attributed mainly to lower than anticipated accommodation costs and capital charges.

Explanation of the variation between  
Estimate net cash requirement and outturn  
(net cash requirement):

Savings of £52.1 million may be attributed mainly to £26.2 million savings on net total resources described above and to £30.2 million savings on capital outturn in turn mainly attributable to the rescheduling of spend by the SCOPE programme and e-Government project development work; latter was contracted for by year end (see Note 26).

Prior-period adjustments – not applicable

The notes on pages 33 to 64 form part of these accounts

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**Reconciliation of resources to cash requirement (£000s)**

	<i>Note</i>	<b>Estimate</b>	<b>Outturn</b>	<b>Net total outturn compared with estimate: saving/(excess)</b>
<b>Net total resources</b>		<b>279,037</b>	<b>252,807</b>	<b>26,230</b>
Capital :				
Acquisition of fixed assets	13	91,658	60,789	30,869
Investments	16	–	–	–
Non-operating A in A :				
Proceeds of fixed asset disposals/ loan repayments	13	(5,469)	(4,887)	(582)
Accruals adjustments :				
Non-cash items	5	(61,569)	(54,158)	(7,411)
Changes in working capital other than cash	17	–	(4,760)	4,760
Changes in creditors falling due after more than one year	21	–	26	(26)
Use of provision	22	(567)	1,120	(1,687)
<b>Net cash requirement (Schedule 4)</b>		<b>303,090</b>	<b>250,937</b>	<b>52,153</b>

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The notes on pages 33 to 64 form part of these accounts

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**Schedule 2**


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**Operating Cost Statement for the year ended  
31 March 2004 (£000s)**

	<i>Note</i>	2003-04	2002-03 Restated
<b>Administration costs</b>			
Staff costs	4	104,098	106,676
Non-staff administration costs	5	<u>125,756</u>	<u>126,694</u>
<b>Gross administration costs</b>		<b>229,854</b>	<b>233,370</b>
Operating income	8	<u>(69,749)</u>	<u>(66,642)</u>
<b>Net administration costs</b>		<b>160,105</b>	<b>166,728</b>
<b>Programme costs</b>			
Staff Costs	4, 6	425	192
Expenditure	6	91,546	75,304
Less: income	8	<u>(88)</u>	<u>(11)</u>
<b>Net programme costs</b>	6	<b>91,883</b>	<b>75,485</b>
<b>Net operating cost</b>	10, 11	<b>251,988</b>	<b>242,213</b>
<b>Net resource outturn</b>	10	<b>252,807</b>	<b>359,115</b>

All income and expenditure are derived from continuing operations.

**Statement of Recognised Gains and Losses for the year ended  
31 March 2004 (£000s)**

	2003-04	2002-03
Net loss on revaluation of tangible fixed assets – Note 24	(3,500)	(5,927)
Net gain / loss on revaluation of intangible fixed assets	–	–
Net gain / loss on revaluation of investments	–	–
Receipt of donated assets – Note 14	<u>50</u>	<u>28</u>
<b>Total recognised gains and losses for the financial year</b>	<b>(3,450)</b>	<b>(5,899)</b>

The notes on pages 33 to 64 form part of these accounts

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**Schedule 3**


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**Balance Sheet as at 31 March 2004 (£000s)**

	<i>Note</i>	31 March 2004	31 March 2003 Restated
<b>Fixed assets:</b>			
Tangible assets	14	255,351	244,407
Intangible assets	15	2,073	2,397
Investments	16	<u>479</u>	<u>510</u>
		<b>257,903</b>	<b>247,314</b>
<b>Debtors falling due after more than one year</b>	19	<b>7,717</b>	<b>8,354</b>
<b>Current assets:</b>			
Stocks	18	1,776	1,776
Debtors	19	45,436	44,092
Cash at bank and in hand	20	<u>6,724</u>	<u>3,937</u>
		53,936	49,805
<b>Creditors (amounts falling due within one year)</b>	21	<u>(56,751)</u>	<u>(45,374)</u>
<b>Net current assets</b>		<u><b>(2,815)</b></u>	<u><b>4,431</b></u>
<b>Total assets less current liabilities</b>		<b>262,805</b>	<b>260,099</b>
<b>Creditors (amounts falling due after more than one year)</b>	21	(38)	(64)
<b>Provisions for liabilities and charges</b>	22	<u>(7,589)</u>	<u>(5,257)</u>
		<u><b>(7,627)</b></u>	<u><b>(5,321)</b></u>
		<u><b>255,178</b></u>	<u><b>254,778</b></u>
<b>Taxpayers' equity:</b>			
General fund	23	228,173	226,374
Revaluation reserve	24	22,414	26,824
Donated asset reserve	24	<u>4,591</u>	<u>1,580</u>
		<b>255,178</b>	<b>254,778</b>

Colin Balmer  
Accounting Officer

22 October 2004

The notes on pages 33 to 64 form part of these accounts

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## Schedule 4

### Cash Flow Statement for year ended 31 March 2004 (£000s)

	2003-04	2002-03 Restated
Net cash outflow from operating activities <sup>a</sup>	(202,377)	(204,561)
Capital expenditure and financial investment <sup>b</sup>	(46,199)	(59,253)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	–	–
Payments of amounts due to the Consolidated Fund	(23)	(3,304)
Financing <sup>c</sup>	251,386	254,542
<b>Increase / (decrease) in cash in the period</b>	<b>2,787</b>	<b>(12,576)</b>

#### Notes

a See the table below giving a reconciliation of operating cost to operating cash flows.

b See the table below giving an analysis of capital expenditure and financial investment.

c See the table below giving an analysis of financing and a reconciliation to the net cash requirement.

### Reconciliation of operating cost to operating cash flows

		2003-04	2002-03 Restated
<b>Net operating cost</b>	<i>Note</i>	251,988	242,213
Adjustments for non-cash transactions	5	(54,637)	(48,575)
Adjustments for movements in working capital other than cash	17	3,906	10,305
Use of provisions	22	1,120	618
<b>Net cash outflow from operating activities</b>		<b>202,377</b>	<b>204,561</b>

### Analysis of capital expenditure and financial investment

		2003-04	2002-03 Restated
Intangible fixed asset additions	<i>Note</i> 15	1,208	756
Tangible fixed asset additions	14	60,500	52,729
Assets included in tangible fixed assets, charged against the General Fund	13	(101)	–
Reversal of unmatured accrual included in tangible fixed assets	14	(818)	–
Adjustments for movements in working capital other than cash – capital accruals	17	(9,703)	6,137
Proceeds of disposal of fixed assets and loan repayments	13	(4,887)	(369)
Loans to other bodies		–	–
Repayment of loans to other bodies		–	–
<b>Net cash outflow from investing activities</b>		<b>46,199</b>	<b>59,253</b>

The notes on pages 33 to 64 form part of these accounts

### Analysis of financing and reconciliation to the net cash requirement

		2003-04	2002-03 Restated
<b>From the Consolidated Fund (Supply) – current year<sup>a</sup></b>	(+)	251,985	363,419
<b>From the Consolidated Fund (Supply) – prior year<sup>b</sup></b>	(+)	1,839	–
From the Consolidated Fund (non-Supply)	(+)	–	–
From the National Insurance Fund	(+)	–	–
Payments to the National Insurance Fund	(-)	–	–
Advances from the Contingencies Fund	(+)	–	–
Repayments to the Contingencies Fund	(-)	–	–
Loans received from the National Loans Fund	(+)	–	–
Repayments of loans from the National Loans Fund	(-)	–	–
<b>Capital element of payments in respect of finance leases and on-balance sheet PFI contracts</b>	(-)	(41)	(40)
<b>Transfer to (-)/from (+) Departments in respect of transferred function (see Footnote 1)</b>	(-)		
<b>Current Year Transfer of Estimate Cover :</b>			
To the Privy Council Office		(500)	(488)
From HM Treasury		1,008	735
To the Department of Trade and Industry		–	(8,464)
To the Office of the Deputy Prime Minister		–	(104,563)
<b>Prior Year Inter-Departmental Balances settled :</b>			
To the Department of Trade and Industry		(2,410)	–
To the Office of the Deputy Prime Minister		(495)	–
To the Department for Culture, Media and Sport		–	(62)
To the Lord Chancellor's Department		–	(174)
To the Home Office		–	(1,973)
From the Department for Education and Skills		–	23
From the Home Office		–	4,107
From the Department for Transport, Local Government and the Regions		–	2,022
<b>Net financing</b>		<b>251,386</b>	254,542
<b>(Increase) / decrease in cash in the period</b>		<b>(2,787)</b>	12,576
<b>Net cash flows other than financing</b>		<b>248,599</b>	267,118
<b>Adjustment for payments and receipts not related to Supply:</b>			
<b>Amounts due to the Consolidated Fund – received in a prior year and paid over</b>	(-)	(23)	(52)
<b>Amounts due to the Consolidated Fund – received and not paid over</b>	(+)	1,030	23
NLF loans – loans made to other bodies	(-)	–	–
NLF loans – principal repayments received from other bodies	(+)	–	–
NLF loans – interest received from other bodies	(+)	–	–
NLF loans – interest paid to the NLF	(-)	–	–
Consolidated Fund standing services – payments	(-)	–	–
National Insurance fund financed activities – payments	(-)	–	–
National Insurance fund financed activities – receipts	(+)	–	–

The notes on pages 33 to 64 form part of these accounts



### Analysis of financing and reconciliation to the net cash requirement (cont)

	2003-04	2002-03 Restated
<b>Supply-financed repayment of financing:</b>		
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts (+)	41	40
Supply issued and paid over to the Consolidated Fund	–	(3,252)
<b>Transfer to (+)/from (-) Departments in respect of transferred function (see Footnote 1)</b>		
<b>Current Year Transfer of Estimate Cover :</b>		
To the Privy Council Office	500	488
From HM Treasury	(1,008)	(735)
To the Department of Trade and Industry	–	8,464
To the Office of the Deputy Prime Minister	–	104,563
<b>Current Year Inter-Departmental Balances to be settled :</b>		
To the Department of Trade and Industry	–	2,410
To the Office of the Deputy Prime Minister	1,798	495
<b>Adjustment for payments financed from Contingencies Fund advances accounted for on Schedule 1 in a different year (in accordance with Government Accounting):</b>		
Current-year payments accounted for on Schedule 1 in the following year (-)	–	–
Prior-year payments accounted for on Schedule 1 in the current year (+)	–	–
	250,937	379,562
Transitional adjustment for outstanding balances relating to the department's Appropriation Accounts for 2000-01 (Note 17)	–	(6,721)
<b>Net cash requirement (Schedule 1)</b>	<b>250,937</b>	<b>372,841</b>

#### Notes

a Amount of grant actually issued to support the net cash requirement = **£251,985,000.00**

b Amount of grant actually issued to support the prior-year net cash requirement = **£1,838,462.83**

#### Footnote 1 – Transfer of Functions

##### 2003-04

To the Office of the Deputy Prime Minister – Administration costs for accommodation

To the Privy Council – The Office of the Lord Privy Seal

From HM Treasury – Honours and Dignities

##### 2002-03

To the Department of Trade and Industry – Women and Equality Unit, Equality Co-ordination Unit, the Equal Opportunities Commission and the Women's National Commission

To the Office of the Deputy Prime Minister – The Government Offices for the Regions and the Regional Co-ordination Unit, the Deputy Prime Minister's Central Policy Group and Social Exclusion Unit

The notes on pages 33 to 64 form part of these accounts

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**Schedule 5**


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**Resources by Departmental Aim and Objectives for the year ended  
31 March 2004 (£000s)**

	2003-04			2002-03 Restated		
	<u>Gross</u>	<u>Income</u>	<u>Net</u>	<u>Gross</u>	<u>Income</u>	<u>Net</u>
Aim:						
Objective 1	79,575	(2,564)	77,011	67,826	(3,161)	64,665
Objective 2	66,711	(16,601)	50,110	72,328	(15,708)	56,620
Objective 3	167,114	(49,319)	117,795	161,113	(47,564)	113,549
Objective 4	8,425	(1,353)	7,072	7,599	(220)	7,379
<b>Net operating cost</b>	<b>321,825</b>	<b>(69,837)</b>	<b>251,988</b>	<b>308,866</b>	<b>(66,653)</b>	<b>242,213</b>

The department's objectives are as follows:

Objective 1 – To support the Prime Minister in leading the Government

Objective 2 – To achieve co-ordination of policy and operations across government

Objective 3 – To improve delivery by building capacity in departments and the public services

Objective 4 – To promote standards that ensure good governance, including adherence to the Ministerial and Civil Service Codes

See Note 25.

The notes on pages 33 to 64 form part of these accounts

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# Notes to the Departmental Resource Accounts

## 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2003–04 *Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in the *RAM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

### 1.1. Accounting convention

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

### 1.2. Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the department and those entities which fall within the departmental boundary as defined in the *Resource Accounting Manual (RAM)* (Section 1.5) issued by HM Treasury. Transactions between entities included in the consolidation are eliminated.

These accounts consolidate the core department and its supply-financed Agency, the Government Car and Despatch Agency (GCDA), which produces and publishes its own annual report and accounts.

A list of all those entities within the departmental boundary is given at Note 36.

### 1.3. Tangible fixed assets

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

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

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

Art and antiques, including some heritage assets, have been inherited by the Department since its earliest existence and are held mainly in Number 10, Downing Street and 70, Whitehall. They are

subject to professional valuation every five years with the revaluation being taken into the revaluation reserve. They are not depreciated.

e-Government projects represent the development of the Government Gateway, Delivering on the Promise (DotP) and Knowledge Network. Expenditure covers the software, hardware and consultancy costs of developing the infrastructure to run these services. During the year, capital expenditure was incurred as follows: to Government Gateway £32 million, DotP £6.3 million and Knowledge Network £0.2 million (respectively for 2002-03: £17.3 million, £12.2 million and £2.7 million).

These assets are owned by the whole of government, but their value is disclosed on the Cabinet Office balance sheet since e-Government manages and is responsible for their development. Project net book values as at March 31 2004 amounted to £70.1 million (2002-03: £63.4 million). The projects have been funded by HM Treasury Capital Modernisation Fund and each asset has been given an estimated useful economic life of three years. These assets are valued at cost as a proxy for replacement cost.

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

More background information on these projects and the overall vision for e-Government can be found on the web site of the e-Government Unit at [www.cabinet-office.gov.uk/e-government](http://www.cabinet-office.gov.uk/e-government).

#### *1.4. Depreciation*

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

Asset lives are normally in the following ranges:

a	Freehold Buildings including Dwellings	50 to 60 years;
b	Leasehold Improvements	Over the remaining term of the lease;
c	Plant and Machinery	3 to 10 years;
d	Furniture and Fittings	5 to 20 years;
e	Information Technology & Office Equipment	3 to 7 years;
f	Motor Vehicles	3 to 5 years.

#### *1.5. Donated assets*

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

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

With effect from 31 March 2004, the Civil Service Club has been recognised as a donated asset and its value credited to the donated asset reserve. This is as a result of discovering the arrangements for the acquisition of the club. A collection was made by individual members of the Civil Service for HM Queen Elizabeth II on the occasion of her Coronation. The gift was returned by the Queen with

her expressed desire that the money be put to the good of the staff, consequently the club was purchased – see note 24.

### *1.6. Intangible fixed assets*

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

### *1.7. Investments*

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

### *1.8. Stocks and work in progress*

Insignia stocks are valued at replacement cost and workshop stocks are valued at cost on a first in first out basis, as reported in GCDA's Annual Report and Accounts.

### *1.9. Research and development*

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets the criteria specified in SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the *RAM* which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

### *1.10. Operating income*

Operating income is income which relates directly to the operating activities of the department. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work; but it also includes other income such as that from investments. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the *RAM* is treated as operating income. Operating income is stated net of VAT.

### *1.11. Administration and programme expenditure*

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

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### *1.12. Capital charge*

A charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5% which was reduced from 6% with effect from 1 April 2003. This is calculated on the average net assets of the opening and closing Balance Sheets after all liabilities, but excluding donated assets, cash balances held by the Office of HM Paymaster General and those amounts due to and from the Consolidated Fund where the charge is nil.

### *1.13. Foreign exchange*

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

### *1.14. Pensions*

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, an unfunded multi-employer defined benefits scheme, described in Note 4. The department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the department recognises the contributions payable for the year.

### *1.15. Leases*

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

### *1.16. Private Finance Initiative (PFI) transactions*

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

Where the balance of risks and rewards of ownership of the PFI property is borne by the department, the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

### *1.17. Grants payable*

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

### *1.18. Provisions*

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

### *1.19. Contingent liabilities*

In addition to contingent liabilities disclosed in accordance with FRS 12, the department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. 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 *Resource Accounting Manual* 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.

### *1.20. Value Added Tax*

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

### *1.21. Third-party assets*

The Cabinet Office held funds during the year which were provided by the European Union for authorised expenditure on the Twinning Project. The Twinning Project was finalised during the year and after transferring remaining funds to appropriate recipients, the account was closed.

These are not recognised in the accounts since neither the department nor government more generally has a direct beneficial interest in them – see Note 35.

## **2. Change to estimation technique**

With effect from the 2003-04 accounts the following material changes in estimating techniques have been introduced in order to meet the needs of in-year expenditure control:

### *2.1. Valuation of tangible and intangible fixed assets*

Balance sheet values for tangible fixed assets are based on a review of values as at the balance sheet date. Previously, for tangible fixed assets, the review of values was carried out prior to 30 September during the year.

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## 2.2. Depreciation and amortisation

Depreciation of tangible fixed assets and amortisation of intangible fixed assets is based on the closing balance sheet values and the basis remains unchanged.

## 2.3. Cost of capital charges

The cost of capital charge is based on the average values for the year and the basis remains unchanged.

## 2.4. Impact of change in estimation technique

The change has had no material effect on expenditure as in Schedules 1, 2, and 5 nor on fixed asset values as in Schedule 3.

## 3. Transfer of function from HM Treasury to the Cabinet Office

- (a) As part of the machinery of government changes implemented on 13 June 2003 responsibility for the Honours and Dignities Unit was transferred from HM Treasury to the Cabinet Office. Certain assets related to the delivering of the function were also transferred to the department on that date. The transfer has been accounted for as a business combination using merger accounting principles in accordance with the *RAM*. Accordingly, the results and cash flows related to the transferred services have been brought into account from the start of the financial year.

The share of the net operating cost for the year attributable to the transferred function was £977,509.

### Analysis of the operating cost statement between the function transferred from HM Treasury and other functions for the year ended 31 March 2004 (£000s)

	<i>Function transferred from HM Treasury</i>	<i>Other</i>	<i>Total</i>
<b>Administration costs</b>			
Staff costs	–	104,098	104,098
Other administration costs	–	125,756	125,756
<b>Gross administration costs</b>	–	<b>229,854</b>	<b>229,854</b>
Operating income	–	(69,749)	(69,749)
<b>Net administration costs</b>	–	<b>160,105</b>	<b>160,105</b>
<b>Programme costs</b>			
Staff costs	–	425	425
Expenditure	985	90,561	91,546
Less: income	(8)	(80)	(88)
<b>Net programme costs</b>	<b>977</b>	<b>90,906</b>	<b>91,883</b>
<b>Net operating cost</b>	<b>977</b>	<b>251,011</b>	<b>251,988</b>

The aggregate value of assets transferred was £1,510,956 and the General Fund has been credited with this amount. Assets were taken over at their book value in HM Treasury's accounts. No significant accounting adjustments were required to achieve consistency of accounting policies. No consideration was given for the assets transferred.

- (b) As set out in (a) above, the machinery of government changes implemented on 13 June 2003 necessitated a restatement of prior year comparative figures. These changes have no impact on the department's Excess Vote in 2002-03 and the department's net resource outturn is as previously stated.



## 4. Staff numbers and related costs

### 4.1. Staff costs

Staff costs consist of:

	2003-04				2002-03 Restated
	£000				£000
	<i>Total</i>	<i>Officials</i>	<i>Ministers</i>	<i>Special Advisers</i>	<i>Total</i>
Wages and salaries	78,497	76,341	71	2,085	79,400
Social security costs	7,002	6,751	7	244	6,174
Other pension costs	10,558	10,316	–	242	10,523
Agency/Temporary	6,790	6,790	–	–	5,736
<b>Sub total</b>	<b>102,847</b>	<b>100,198</b>	<b>78</b>	<b>2,571</b>	101,833
Inward secondments	4,318	4,318	–	–	5,506
<b>Total</b>	<b>107,165</b>	<b>104,516</b>	<b>78</b>	<b>2,571</b>	107,339
Less recoveries in respect of outward secondments	(625)	(625)	–	–	(471)
Less recoveries in respect of loaned staff	(2,012)	(2,012)	–	–	–
<b>Total net costs *</b>	<b>104,528</b>	<b>101,879</b>	<b>78</b>	<b>2,571</b>	106,868

\* £4,531 of the total above has been charged to capital

During the year costs of £10,558,834 were incurred in respect of pensions (2002-03 £10,523,262).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefits scheme but the Cabinet Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2003-04, normal employer contributions of £10,298,451 were payable to the PCSPS (2002-03 £10,214,515) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £14,429 (2002-03 £353) were paid to one or more of a panel of four appointed stakeholder pension providers. Employers' 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 £3,526 (2002-03 £353), 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 £615 (2002-03 £69). Contributions prepaid at that date were nil.

Special advisers pension costs incurred during the year were £242,428 (2002-03 £308,041).

During the year, one staff member retired early on the grounds of ill health and this resulted in an additional accrued pension liability in the amount of £3,623 payable by the pension scheme.

#### 4.2. Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the department as well as in agencies and other bodies included within the consolidated departmental resource account:

Objective	2003-04								2002-03
	Total	Ministers	Special Advisers	Senior Management	Officials	Staff on inward secondment	Agency, temporary and contract staff	Number	Restated Number
1	721	1	29	5	462	208	16	705	
2	448	–	1	3	353	84	7	372	
3	1,143	–	2	4	777	250	110	1,143	
4	135	–	–	1	115	17	2	115	
Staff engaged on capital projects	–	–	–	–	–	–	–	–	
<b>Total</b>	<b>2,447</b>	<b>1</b>	<b>32</b>	<b>13</b>	<b>1,707</b>	<b>559</b>	<b>135</b>	<b>2,335</b>	

#### 4.3. Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior officials of the department.

##### A. Remuneration:

Ministers	2003-04		2002-03	
	Salary £	Benefits in kind (to nearest £100)	Salary £	Benefits in kind (to nearest £100)
The Rt Hon The late Lord Williams of Mostyn QC (to 12 June 2003)	19,392 <sup>1</sup>	–	94,838	–
The Rt Hon The Lord MacDonald of Tradeston CBE <sup>2</sup> (to 12 June 2003)	33,872 <sup>3</sup>	–	72,040	–
Douglas Alexander Esq MP	37,055	–	30,395	–

<sup>1</sup> Figure is quoted for the period 1 April 2003 to 12 June 2003. The full year equivalent is £96,960

<sup>2</sup> Lump sum payment of £18,927 severance pay

<sup>3</sup> Figure quoted is for the period 1 April 2003 to 12 June 2003. The full year equivalent is £73,706 excluding severance pay.

	2003-04		2002-03	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Senior Management				
Sir Andrew Turnbull KCB CVO	215 – 220	–	155 – 160 (200 – 205 full year equivalent)	–
Sir David Omand GCB	175 – 180	–	170 – 175	–
Mr Colin Balmer CB <i>(from 21 July 2003)</i>	85 – 90 (125 – 130 full year equivalent)	–	N/A	–
Sir David Manning KCMG <i>(to 27 July 2003)</i>	40 – 45 (125 – 130 full year equivalent)	–	130 – 135	–
Sir Stephen Wall KCMG	175 – 180	–	180 – 185	–
Sir Geoffrey Bowman KCB	200 – 205	–	170 – 175	–
Sir Nigel Sheinwald KCMG <i>(from 26 August 2003)</i>	75 – 80 (135 – 140 full year equivalent)	–	N/A	–
Mr Ivan Rogers <i>(from 5 January 2004)</i>	15 – 20 (105 – 110 full year equivalent)	–	N/A	–
Mr Paul Britton CB	115 – 120	–	110 - 115	–
Mr Jeremy Heywood CB <i>(to 4 January 2004)</i>	115 – 120 (140 – 145 full year equivalent)	–	125 – 130	–

### Salary

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

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£56,358, 2002–03 £55,118) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department and is therefore shown in full in the figures above.

### Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. None of the above employees received any such benefits in the year.

**B. Pension Benefits:**

Ministers	Real increase in pension at age 65	Accrued pension at age 65 at 31/3/04 and related lump sum	CETV at 31 March 2004 or End Date	CETV at 31 March 2003 or Start Date	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
The Rt Hon The late Lord Williams of Mostyn QC <i>(to 12 June 2003)</i>	0.0 – 2.5	10 – 15	142	131	4
The Rt Hon The Lord MacDonald of Tradeston CBE <i>(to 12 June 2003)</i>	Opted Out	Opted Out	–	–	–
Douglas Alexander Esq MP	0.0 – 2.5	0 – 5	16	9	3

**Ministerial pensions**

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

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

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate.

There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

**The Cash Equivalent Transfer Value (CETV)**

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

**The real increase in the value of the CETV**

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

Senior Management	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2004 and related lump sum	CETV at 31 March 2004 or End Date	CETV at 31 March 2003 or Start Date	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Sir Andrew Turnbull KCB CVO	10.0 – 12.5 plus 32.5 – 35.0 lump sum	95 – 100 plus 290 – 295 lump sum	1,798	1,532	172	–
Sir David Omand GCB	2.5 – 5.0 plus 10.0 – 12.5 lump sum	70 – 75 plus 215 – 220 lump sum	1,177	1,077	56	–
Mr Colin Balmer CB (from 21 July 2003)	0.0 – 2.5	65 – 70	968	919	29	–
Sir David Manning KCMG (to 27 July 2003)	0.0 – 2.5 plus 0.0 – 2.5 lump sum	50 – 55 plus 155 – 160 lump sum	885	875	(1)	–
Sir Stephen Wall KCMG	2.5 – 5.0 plus 7.5 – 10.0 lump sum	75 – 80 plus 220 – 225 lump sum	1,379	1,309	69	–
Sir Geoffrey Bowman KCB	10.0 – 12.5 plus 32.5 – 35.0 lump sum	90 – 95 plus 280 – 285 lump sum	1,703	1,435	220	–
Sir Nigel Sheinwald KCMG (from 26 August 2003)	0.0 – 2.5 plus 2.5 – 5.0 lump sum	45 – 50 plus 135 – 140 lump sum	718	667	39	–
Mr Ivan Rogers (from 5 January 2004)	0.0 – 2.5	25 – 30	255	234	3	–
Mr Paul Britton CB	0.0 – 2.5 plus 5.0 – 7.5 lump sum	45 – 50 plus 145 – 150 lump sum	835	765	32	–
Mr Jeremy Heywood CB (to 4 January 2004)	0.0 – 2.5 plus 2.5 – 5.0 lump sum	25 – 30 plus 85 – 90 lump sum	362	330	15	–

### Civil Service Pensions

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

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

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

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

**Cash Equivalent Transfer Values**

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

**Real increase in CETV**

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

## 5. Non-staff administration costs

	2003-04		2002-03 Restated	
	£000	£000	£000	£000
<b>Rentals under operating leases:</b>				
Hire of plant and machines	8,011		7,934	
Other operating leases	<u>7,947</u>		<u>7,998</u>	
		15,958		15,932
<b>Interest charges:</b>				
Finance leases	11		11	
On-balance sheet PFI contracts	<u>-</u>		<u>-</u>	
		11		11
<b>PFI service charges:</b>				
Off-balance sheet contracts	3,809		4,020	
Service element of on-balance sheet contracts	<u>-</u>		<u>-</u>	
		3,809		4,020
<b>Research and development expenditure</b>		6		27
<b>Non-cash items<sup>a</sup>:</b>				
Depreciation and amortisation of fixed assets:				
Civil Estate	2,365		2,516	
Other tangible fixed assets	5,371		3,579	
Intangible fixed assets	749		1,246	
Impairment of fixed assets:				
Civil Estate	505		-	
Other fixed assets	124		403	
Net Loss on disposal of fixed assets	54		73	
Cost of capital charge:				
Civil Estate	5,510		10,405	
Other items	901		561	
Auditors' remuneration and expenses <sup>b</sup>	240		245	
Provisions:				
Provided in year	3,655		1,225	
Unwinding of discount on provisions	<u>100</u>		<u>263</u>	
		19,574		20,516
<b>Other expenditure<sup>c</sup></b>		<u>86,398</u>		<u>86,188</u>
		<b>125,756</b>		<b>126,694</b>

<sup>a</sup>The total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	2003-04
	£000
Other administration costs – non-cash items (as above)	19,574
Other non-cash amounts charged to operating expenditure:	
Programme costs – Note 6	
Cost of capital charge	2,295
Depreciation	32,163
Impairment	635
Less non-cash income:	
Notional interest on early departure costs – Note 8	(30)
Deferred donation income released from the Donated Asset Reserve	-
<b>Total non-cash transactions - Schedule 4</b>	<b>54,637</b>
Consolidation elimination entries	(479)
<b>Total non-cash transactions - Schedule 1</b>	<b>54,158</b>

<sup>b</sup>No payments were made to the auditors in respect of non-audit services.

<sup>c</sup>Other expenditure comprises:

	2003-04	2002-03
	£000	£000
Accommodation and Utilities	27,802	27,340
IT Costs	16,449	13,269
Supplies and Services	15,355	17,000
Other Staff Related Costs	11,126	13,036
Travel, Subsistence and Hospitality	7,903	9,387
CMPS External Lecturer Fees and Contracted Out Courses	5,357	4,306
GCDA Vehicle Costs and Services	2,406	1,850
<b>Other Expenditure</b>	<b>86,398</b>	<b>86,188</b>

## 6. Net programme costs

	2003-04	2002-03 Restated
Note	£000	£000
<b>Current grants</b>		
Civil Defence Grants to Local Authorities	18,901	18,634
Other	5,272	3,868
<b>Other current expenditure</b>		
National severe weather warning system	10,103	10,041
Central Sponsor for Information Assurance:		
UK Secure Communications	6,216	6,472
Common Good Funding	3,596	-
	9,812	6,472
Other	1,864	3,141
SCOPE cross-departmental information strategy:		
Staff Costs	425	192
Depreciation	59	-
Impairment	241	-
Cost of Capital Charge	86	-
Other Expenditure	3,582	687
	4,393	879
e-Government:		
Staff Costs	-	-
Depreciation	32,104	20,346
Impairment	394	4,511
Cost of Capital Charge	2,209	3,626
Other Expenditure	6,919	3,978
	41,626	32,461
	<b>91,971</b>	<b>75,496</b>
Less: programme income	8	(11)
	<b>91,883</b>	<b>75,485</b>

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

**Analysis of income payable to the Consolidated Fund**

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

	Forecast 2003-04		Outturn 2003-04	
	Income	Receipts	Income	Receipts
Note	£000	£000	£000	£000
Operating income and receipts – excess A in A	8	-	-	1,022
Non-operating income and receipts - excess A in A	8	-	-	-
Subtotal	8	-	-	1,022
Other operating income and receipts not classified as A in A	8	-	8	8
Other non-operating income and receipts not classified as A in A	8	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	8	-	-	-
Excess cash surrenderable to the Consolidated Fund	8	-	-	-
<b>Total</b>	<b>37</b>	<b>-</b>	<b>8</b>	<b>1,030</b>



## 8. Income and appropriations in aid

### 8.1. Operating income

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see Note 9). In 2003-04, all operating income not classified as A in A was within public expenditure.

	2003-04					Operating
	Resource	Reconciliation to Operating Cost Statement				Cost
	Outturn	Transfer of	Netted off gross	Payable to	Transactions	Statement
A in A	function	expenditure in	Consolidated	between requests	Income	
£000	£000	sub-head	Fund	for resources	£000	
Administrative income:						
Transactions between Request for Resources	-	-	-	-	-	-
Fees and charges to external customers	4,048	-	-	8	-	4,056
Fees and charges to other departments	65,663	-	-	-	-	65,663
Notional interest on early departure costs	30	-	-	-	-	30
Consolidation elimination adjustments relating to fees and charges of other departments	6,513	-	(6,513)	-	-	-
Seconded staff – netted off in Schedule 2	625	-	(625)	-	-	-
Estimate cover A in A	1,008	(1,008)	-	-	-	-
	<b>77,887</b>	<b>(1,008)</b>	<b>(7,138)</b>	<b>8</b>	-	<b>69,749</b>
Programme income:	88	-	-	-	-	88
<b>Total</b>	<b>77,975</b>	<b>(1,008)</b>	<b>(7,138)</b>	<b>8</b>	-	<b>69,837</b>

	2002-03 Restated					Operating
	Resource	Reconciliation to Operating Cost Statement				Cost
	Outturn	Transfer of	Netted off gross	Payable to	Transactions	Statement
A in A	function	expenditure in	Consolidated	between requests	Income	
£000	£000	sub-head	Fund	for resources	£000	
Administrative income:						
Transactions between Request for Resources	-	-	-	-	-	-
Fees and charges to external customers	4,042	-	-	22	-	4,064
Fees and charges to other departments	61,504	-	-	1,022	-	62,526
Notional interest on early departure costs	52	-	-	-	-	52
Consolidation elimination adjustments relating to fees and charges of other departments	5,191	-	(5,191)	-	-	-
Estimate cover A in A	-	-	-	-	-	-
	<b>70,789</b>	-	<b>(5,191)</b>	<b>1,044</b>	-	<b>66,642</b>
Programme income:	-	11	-	-	-	11
<b>Total</b>	<b>70,789</b>	<b>11</b>	<b>(5,191)</b>	<b>1,044</b>	-	<b>66,653</b>

An analysis of income from services provided to external and public sector customers is as follows:

	2003-04			2002-03 Restated		
	Income	Full cost	Surplus/(deficit)	Income	Full cost	Surplus/(deficit)
	£000	£000	£000	£000	£000	£000
Cabinet Office	24,378	274,684	(250,306)	23,181	262,913	(239,732)
CMPS - Civil Service Training College	27,491	29,020	(1,529)	24,180	27,852	(3,672)
GCDA – provision of Government Car & Despatch Services	15,730	15,559	171	14,782	14,981	(199)
GNN – advice on publicity matters regional issues	9,368	9,221	147	8,646	8,673	(27)
<b>Request for Resources Note 12</b>	<b>76,967</b>	<b>328,484</b>	<b>(251,517)</b>	<b>70,789</b>	<b>314,419</b>	<b>(243,630)</b>

Further analysis of GCDA results can be found in their published Annual Report and Accounts.

### 8.2. Non-operating appropriations in aid

	2003-04	2002-03 Restated
	£000	£000
Principal repayments of voted loans	31	193
Disposals of fixed assets	4,856	249
<b>Note 13</b>	<b>4,887</b>	<b>442</b>

### 8.3. Rental Income

	2003-04	2002-03 Restated
	£000	£000
From other government departments	3,242	1,750
From external tenants	882	565
	<b>4,124</b>	<b>2,315</b>

### 8.4. European Union Income (included in operating income)

	2003-04	2002-03
	£000	£000
Recovery of administration costs relating to Polish and Slovak Twinning Projects, treated as negative public expenditure	–	85

## 9. Administration cost limits

The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

	2003-04		2002-03 Restated	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for resources				
Cabinet Office (Gross Limit)	158,284	226,377	163,200	167,760
Centre for Management and Policy Studies (Net Limit)	1,529	1,764	2,504	2,481
Government Car and Despatch Agency (Net Limit)	(171)	–	(1,584)	(1,406)
<b>Total within administration cost control</b>	<b>159,642</b>	<b>228,141</b>	<b>164,120</b>	<b>168,835</b>
Administration Expenditure excluded from administration cost limit:	–			
Administration Income Allowable within the administration cost limit	<b>76,871</b>			
<b>Total administration outturn Note 12</b>	<b>236,513</b>			

The administration cost limit of £226,377 included costs subsequently classified as other current within net resource outturn and as programme costs within net operating cost.

## 10. Reconciliation of net operating cost and net resource outturn

	2003-04	2002-03 Restated
	<u>£000</u>	<u>£000</u>
Net operating cost <sup>a</sup>	251,988	242,213
<i>Remove</i> non-supply expenditure (-) and income (+), including income scored as Consolidated Fund extra receipts (CFERs):		
Operating income not classified as A in A	8	1,044
Consolidated Fund standing services	-	-
<i>Adjust</i> for the effects of prior-period adjustments in the current and prior years	-	-
<i>Adjust</i> for transfer of Estimate cover in respect of transfer of functions	1,290	115,732
<i>Adjust</i> to prior year comparatives in respect of current year transfer of function	-	(247)
<i>Adjust</i> for Consolidation Elimination entries excluded from Schedule 1	(479)	373
<b>Net resource outturn<sup>a</sup></b>	<b>252,807</b>	<b>359,115</b>

### Note

a Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

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

	2003-04	2002-03 Restated
	<b>Budget</b>	<b>Outturn</b>
	<u>£000</u>	<u>£000</u>
<b>Spending body:</b>		
Cabinet Office	277,747	252,159
Government Car and Despatch Agency	-	(171)
	<b>277,747</b>	<b>251,988</b>

## 12. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement

	2003-04							2002-03	
	Admin.	Other	Grants	Gross	A in A	NET	Estimate	Saving /	Prior-year
	£000	current	£000	resource	£000	TOTAL	£000	(Excess)	outturn
	£000	£000	£000	expenditure	£000	£000	£000	£000	£000
<b>Request for resources 1:</b>									
<i>Central Government Spending:</i>									
Cabinet Office	192,025	67,798	5,272	265,095	(33,749)	231,346	256,945	25,599	220,637
Centre for Management and Policy Studies	28,929	–	–	28,929	(27,400)	1,529	1,764	235	3,672
Government Car and Despatch Agency	15,559	–	–	15,559	(15,730)	(171)	–	171	199
<i>Support for Local Authorities:</i>									
Emergency Planning Grants	–	–	18,901	18,901	(88)	18,813	19,038	225	18,634
<i>Other:</i>									
Emergency Planning Capital Grants	–	–	–	–	–	–	–	–	488
<b>Total</b>	<b>236,513</b>	<b>67,798</b>	<b>24,173</b>	<b>328,484</b>	<b>(76,967)</b>	<b>251,517</b>	<b>277,747</b>	<b>26,230</b>	<b>243,630</b>
<b>Transfer of Functions 2003-04</b>									
<b>From Her Majesty's Treasury</b>									
Honours & Dignities Unit	–	–	–	–	(1,008)	(1,008)	(1,008)	–	(735)
<b>To The Office of the Deputy Prime Minister</b>									
Accommodation Transfer	–	1,798	–	1,798	–	1,798	1,798	–	–
<b>To Privy Council Office</b>									
Lord Privy Seal	–	500	–	500	–	500	500	–	488
<b>Transfer of Functions 2002-03</b>									
<b>To the Department of Trade and Industry</b>									
Women and Equality & Equality Co-ordination Units	–	–	–	–	–	–	–	–	3,869
Equal Opportunities & Women's National Commissions	–	–	–	–	–	–	–	–	7,005
<b>To the Office of the Deputy Prime Minister</b>									
Government Offices for the Regions	–	–	–	–	–	–	–	–	99,043
Central Policy Group and Social Exclusion Unit	–	–	–	–	–	–	–	–	5,815
<b>Total</b>	<b>–</b>	<b>2,298</b>	<b>–</b>	<b>2,298</b>	<b>(1,008)</b>	<b>1,290</b>	<b>1,290</b>	<b>–</b>	<b>115,485</b>
<b>Resource Outturn</b>	<b>236,513</b>	<b>70,096</b>	<b>24,173</b>	<b>330,782</b>	<b>(77,975)</b>	<b>252,807</b>	<b>279,037</b>	<b>26,230</b>	<b>359,115</b>

### Reconciliation to Operating Cost Statement

Non-Supply expenditure	–	–	–	–	–	–	–	–	–
Income payable to the Consolidated Fund	–	–	–	–	(8)	(8)	–	–	–
Transactions between Request for Resources netted off in Operating Cost Statement	–	–	–	–	–	–	–	–	–
Income netted off in gross sub-head grossed up in Operating Cost Statement	(625)	–	–	(625)	625	–	–	–	–
Consolidation Elimination Entries	(6,034)	–	–	(6,034)	6,513	479	–	–	–
Transfer of estimate cover	–	(2,298)	–	(2,298)	1,008	(1,290)	–	–	–
<b>Gross operating expenditure</b>				<b>321,825</b>					
<b>Operating income</b>					<b>(69,837)</b>				
<b>Net operating cost</b>						<b>251,988</b>			

### 13. Analysis of capital expenditure, financial investment and associated A in A

	Capital expenditure	Loans, etc.	A in A	NET TOTAL
	£000	£000	£000	£000
Purchase of fixed assets	61,607	–	–	61,607
Reversal of unmaturred accrual	(818)	–	–	(818)
Income from disposal of fixed assets	–	–	(4,856)	(4,856)
Income from loan repayments	–	–	(31)	(31)
<b>Total 2003–04</b>	<b>60,789</b>	<b>–</b>	<b>(4,887)</b>	<b>55,902</b>
<b>Total 2002–03 re-stated</b>	<b>53,485</b>	<b>–</b>	<b>(369)</b>	<b>53,116</b>

Capital expenditure excludes :

donated assets of £49,505; and

e-Government assets of £101,101 which do not meet the criteria for a donated asset and which have been charged against the General Fund.

### 14. Tangible fixed assets

	Land & Buildings excluding Dwellings (b)	e-Government Dwellings (b)	Information Projects (c)	Technology (d)	Plant & Machinery (f)	Furniture & Fittings (g)	Arts & Antiques (h)	Assets under Gifts Construction (i)	AUC e-Gov't Projects (j)	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>										
At 1 April 2003	159,458	961	97,799	10,044	10,618	4,717	6,116	1,580	1,322	294,274
Additions	7	–	33,322	3,467	3,645	312	–	–	14,552	60,500
Accrual reversal	(818)	–	–	–	–	–	–	–	–	(818)
Donations	–	–	–	–	–	–	–	50	–	50
Disposals	(4,622)	–	–	(720)	(2,377)	(678)	–	–	–	(8,397)
Reclassifications	(15,017)	15,017	121	214	–	–	–	–	1,324	–
Reclassifications (c)	–	–	(9,119)	–	–	–	–	–	–	(9,119)
Revaluations (a)	(7,127)	413	–	(263)	(22)	12	–	–	(589)	(7,576)
<b>At 31 March 2004</b>	<b>131,881</b>	<b>16,391</b>	<b>122,123</b>	<b>12,742</b>	<b>11,864</b>	<b>4,363</b>	<b>6,116</b>	<b>1,630</b>	<b>16,609</b>	<b>328,914</b>
<b>Depreciation</b>										
At 1 April 2003	3,237	56	35,784	3,612	5,858	1,320	–	–	–	49,867
Charged in year	2,251	114	31,361	2,791	1,970	629	–	–	–	39,116
Disposals	(267)	–	–	(702)	(2,189)	(330)	–	–	–	(3,488)
Reclassifications	(383)	385	101	(101)	–	(2)	–	–	–	–
Reclassifications (c)	–	–	(8,725)	–	–	–	–	–	–	(8,725)
Revaluations	(3,083)	–	–	(100)	(28)	4	–	–	–	(3,207)
<b>At 31 March 2004</b>	<b>1,755</b>	<b>555</b>	<b>58,521</b>	<b>5,500</b>	<b>5,611</b>	<b>1,621</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>73,563</b>
<b>Net book value at 31 March 2004</b>	<b>130,126</b>	<b>15,836</b>	<b>63,602</b>	<b>7,242</b>	<b>6,253</b>	<b>2,742</b>	<b>6,116</b>	<b>1,630</b>	<b>16,609</b>	<b>255,351</b>
<b>Net book value at 31 March 2003</b>	<b>156,221</b>	<b>905</b>	<b>62,015</b>	<b>6,432</b>	<b>4,760</b>	<b>3,397</b>	<b>6,116</b>	<b>1,580</b>	<b>1,322</b>	<b>244,407</b>
<b>Asset financing:</b>										
Owned	128,683	15,836	63,602	7,242	6,190	2,742	6,116	1,630	14,893	252,129
Finance leased (f)	–	–	–	–	63	–	–	–	–	63
On-balance sheet PFI contracts	1,443	–	–	–	–	–	–	–	–	1,443
PFI residual interests (g)	–	–	–	–	–	–	–	–	1,716	1,716
<b>Net book value at 31 March 2004</b>	<b>130,126</b>	<b>15,836</b>	<b>63,602</b>	<b>7,242</b>	<b>6,253</b>	<b>2,742</b>	<b>6,116</b>	<b>1,630</b>	<b>16,609</b>	<b>255,351</b>

## Notes

## a Revaluations

**Land and Buildings**

Cushman & Wakefield Healey & Baker, independent chartered surveyors, valued 22-26 Whitehall, Admiralty Arch, Admiralty House, 53 Parliament St, 10-12 Downing St, 36 Whitehall, 70 Whitehall, Hannington Radio Mast and the Civil Service Club as at 31 March 2004 on the basis of existing use value. Insignia Richard Ellis Ltd, independent chartered surveyors, valued The Emergency Planning College, Hawkhill as at 15 October 2001 on the basis of open market value of the freehold interest assuming full vacant possession. Due to the unusual nature of the size, location and property categories, valuations of Downing St and Admiralty Arch are subject to valuation uncertainty where it is difficult to judge the sale price achievable in the market.

**Art & Antiques**

The professional revaluation of Art & Antiques due in the current financial year, according to the department's accounting policies, has been deferred until 2004-05 to correspond with the comprehensive review scheduled for gifts. No material change in value is deemed likely to have occurred. Art and antiques, including furniture, carpets, clocks, silver, ceramics and art were last valued in September 1998 by experts at Sotheby's.

**Gifts**

These donated assets were valued in July 1999 by J. McCarthy Ltd.

All other tangible non-heritage fixed assets are revalued annually using indices provided by the Treasury.

## b Included within Land and Buildings and Dwellings are directly attributable notional acquisition costs of £7.3 million at valuation representing legal fees and stamp duty at 5.75% of land and buildings valuation.

Included within Land and Buildings is the Civil Service Club. With effect from 31 March 2004, the Civil Service Club has been recognised as a donated asset and its value credited to the donated asset reserve. This is as a result of discovering the arrangements for the acquisition of the club. A collection was made by individual members of the Civil Service for HM Queen Elizabeth II on the occasion of her Coronation. The gift was returned by the Queen with her expressed desire that the money be put to the good of the staff, consequently the club was purchased – see note 24.

## c Following the impairment review in 2002-03, e-Government costs and accumulated depreciation were reclassified and restated, giving rise to an additional impairment of £0.4 million.

## d Assets Under Construction

Included within assets under construction are:

£4.4 million spent on the refurbishment of Whitehall properties which has yet to be fully completed; and

£4.4 million (2002-03: £0.4 million) spent on the redevelopment of the Emergency Planning College facilities based in York.

## e Assets Under Construction – e-Government

£0.24 million was spent on Knowledge Network projects and £5.1 million on data centre hosting and managed service projects for central infrastructure. Both projects are incomplete as at 31 March 2004.

## f Plant &amp; Machinery includes £165,000 relating to the gross value of motor vehicles purchased through a hire purchase agreement. Accumulated depreciation of £102,000 has been charged on these vehicles, resulting in a net book value of £63,000.

## g CMPS recognise as a fixed asset the accruing residual interest in property under a PFI agreement – see note 28.

## 15. Intangible fixed assets

The department's intangible fixed assets comprise purchased software licences.

	<b>e-Government</b>	<b>Other</b>	<b>Total</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Cost or valuation</b>			
At 1 April 2003	1,982	5,655	7,637
Additions	613	595	1,208
Donations	–	–	–
Disposals	–	–	–
Revaluation	–	–	–
<b>At 31 March 2004</b>	<b>2,595</b>	<b>6,250</b>	<b>8,845</b>
<b>Amortisation</b>			
At 1 April 2003	538	4,702	5,240
Charged in year	743	789	1,532
Disposals	–	–	–
Revaluation	–	–	–
<b>At 31 March 2004</b>	<b>1,281</b>	<b>5,491</b>	<b>6,772</b>
<b>Net book value at 31 March 2004</b>	<b>1,314</b>	<b>759</b>	<b>2,073</b>
<b>Net book value at 31 March 2003</b>	<b>1,444</b>	<b>953</b>	<b>2,397</b>

## 16. Investments

	<b>Civil Service Sports Council</b>	<b>London Hostels Association</b>	<b>Total</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance at 1 April 2003	16	494	510
Additions	–	–	–
Disposals	–	–	–
Loan repayments	(1)	(30)	(31)
Revaluations	–	–	–
	<b>15</b>	<b>464</b>	<b>479</b>
Loans repayable within 12 months transferred to debtors	–	–	–
<b>Balance at 31 March 2004</b>	<b>15</b>	<b>464</b>	<b>479</b>

## 17. Movements in working capital other than cash

The movements in working capital used in the Reconciliation of resources to cash requirement comprise:

	<b>2003–04</b>	<b>2002–03 Restated</b>
	<i>£000</i>	<i>£000</i>
Decrease in stocks/work in progress	–	(77)
Increase in debtors	707	23,818
(Increase) / Decrease in creditors falling due within one year	(11,377)	12,866
	(10,670)	36,607
Adjustment: movement in working capital not related to net operating costs -		
Movement in amounts due to the Consolidated Fund	5,719	(18,335)
Movement in amounts relating to Transfer of Functions	(1,107)	6,848
Movement in amounts relating to Early departure pre-funding	273	308
Movement in amounts relating to PFI Contract	–	(8,971)
Movement in amounts receivable due to Consolidated Fund when received	1,022	(1,022)
Other	3	–
Transitional adjustment recognised in Schedule 1*	–	(6,721)
<b>Net (decrease) / increase in working capital other than cash</b>	<b>(4,760)</b>	<b>8,714</b>

\* Transitional adjustment for outstanding balances relating to the department's Appropriation Accounts for 2000-01

The movements in working capital other than cash used in the Cash Flow Statement comprise:

	2003-04 £000	2002-03 Restated £000
Decrease in stocks/work in progress	-	(77)
Increase in debtors	707	23,818
(Increase) /Decrease in creditors falling due within one year	(11,377)	12,866
Adjustment: movement in amounts relating to current part of finance lease	(15)	(15)
	(10,685)	36,592
Adjustment: movement in working capital not related to net operating costs -		
Movement in amounts due to the Consolidated Fund	5,719	(18,335)
Movement in amounts relating to Transfer of Functions	(1,107)	6,848
Movement in amounts relating to Early departure pre-funding	273	308
Movement in amounts relating to PFI Contract	-	(8,971)
Other	3	-
<b>Net (decrease) /increase in working capital other than cash</b>	<b>(5,797)</b>	<b>16,442</b>

	2003-04 £000	2002-03 Restated £000
Net (decrease) / increase relating to :		
Operating activities - Schedule 4	3,906	10,305
Investing activities - Schedule 4 - arising on (increased) / decreased movement in capital accruals	(9,703)	6,137
<b>Net (decrease) /increase in working capital other than cash</b>	<b>(5,797)</b>	<b>16,442</b>

## 18. Stocks and work in progress

	2003-04 £000	2002-03 Restated £000
Stocks	1,776	1,776
Work in progress	-	-
	<b>1,776</b>	<b>1,776</b>



## 19. Debtors

	2003-04 £000	2002-03 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	32,191	10,952
Deposits and advances	794	1,267
Other debtors	93	15,710
VAT	2,980	5,186
Prepayments and accrued income	8,431	7,919
Current part of PFI prepayment	637	637
Early retirement prefunding	310	583
Amounts due from the Consolidated Fund in respect of supply	–	1,838
	<b>45,436</b>	<b>44,092</b>
<b>Amounts falling due after more than one year:</b>		
Trade debtors	–	–
Deposits and advances	–	–
Other debtors	–	–
Prepayments and accrued income	7,717	8,354
	<b>7,717</b>	<b>8,354</b>
<b>Total</b>	<b>53,153</b>	<b>52,446</b>

There are no amounts within Trade Debtors that will be due to the Consolidated Fund once the debts are collected (2002-03:£1,022,000).

Included within Trade Debtors is £18,048,623 (2002-03: £15,360,529) due from the Home Office in return for services provided by e-Government in developing infra-structure on behalf of the Criminal Justice IT at the Home Office. In 2002-03 this amount was included in Other Debtors.

## 20. Cash at bank and in hand

	2003-04 £000	2002-03 £000
Balance at 1 April	3,937	16,513
Net change in cash balances:	2,787	(12,576)
<b>Balance at 31 March</b>	<b>6,724</b>	<b>3,937</b>
The following balances at 31 March are held at:		
Office of HM Paymaster General	6,297	3,381
Commercial banks and cash in hand	427	556
<b>Balance at 31 March</b>	<b>6,724</b>	<b>3,937</b>
The balance at 31 March comprises:		
<b>Cash due to be paid to the Consolidated Fund</b>		
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,048	(8,559)
Transitional adjustment recognised in Schedule 1	–	6,721
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,048	(1,838)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	1,030	23
Cash balances held by entities under net administrative control	2,848	–
<b>Other</b>		
Cash payments due to departments relating to Transfer of Functions:		
Department of Trade and Industry	–	2,410
Office of the Deputy Prime Minister	1,798	495
Cash balances held by entities under net administrative control	–	2,847
	<b>6,724</b>	<b>3,937</b>

## 21. Creditors

	2003-04 £000	2002-03 Restated £000
<b>Amounts falling due within one year:</b>		
Other taxation and social security	2,394	–
Trade creditors	4,746	5,583
Other creditors	2,768	3,116
Accruals and deferred income	40,094	32,440
Accruals and deferred income relating to Machinery of Government transfers	–	245
Current part of finance leases	25	40
Current part of imputed finance lease element of on-balance sheet PFI contracts	–	–
Cash balances owed relating to Machinery of Government Transfers	1,798	2,905
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,048	–
Consolidated Fund extra receipts due to be paid to the Consolidated Fund		
Received	1,030	23
Receivable	–	1,022
Cash balances held by entities under net administrative control	2,848	–
	<b>56,751</b>	<b>45,374</b>
<b>Amounts falling due after more than one year:</b>		
Finance leases	38	64
Imputed finance lease element of on-balance sheet PFI contracts	–	–
	<b>38</b>	<b>64</b>
<b>Total</b>	<b>56,789</b>	<b>45,438</b>

## 22. Provisions for liabilities and charges

	Early Departure Costs £000	Specific Dilapidations £000	Free Rent £000	Other £000	Total £000
Balance at 1 April 2003	1,727	1,176	2,274	80	5,257
Provided in the year	3,340	517	–	–	3,857
Provisions not required written back	–	(26)	(176)	–	(202)
Provisions utilised in the year	(1,118)	–	–	(2)	(1,120)
Unwinding of discount	100	–	–	–	100
Prefunding used	(303)	–	–	–	(303)
<b>Balance at 31 March 2004</b>	<b>3,746</b>	<b>1,667</b>	<b>2,098</b>	<b>78</b>	<b>7,589</b>

### 22.1. Early departure costs

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms. Until March 2000, the department was able to settle some or all of its liability in advance for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of Civil Service Superannuation Vote. The balance remaining is treated as a prepayment. Payments are made monthly and it is anticipated that the expenditure will all have been incurred by 2011.

### 22.2. Specific Dilapidations

The department leases a number of properties which it is required to bring into a good state of repair at the end of the lease. A provision is made for the estimated costs of these repairs and spread over the term of the lease. The expiry dates of these leases range from December 2004 to October 2026. It is anticipated that most of the expenditure will take place at the end of the lease.

### 22.3. Free Rent

The department holds a number of leases which included a free rent period. The rent reduction given through the rent free period is spread over the term of the lease. These leases have expiry dates ranging from 2007 to 2026.

### 22.4. Other

A provision for £80,000 has been set up in GCDA's books to meet likely obligations as a consequence of claims made against them as at 31 March 2003. Payments are expected to be made in 2004 and 2005.

## 23. Reconciliation of net operating cost to changes in general fund

	2003-04		2002-03 Restated	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(251,988)		(242,213)	
Income not appropriated in aid payable to Consolidated Fund	(8)		(1,044)	
		(251,996)		(243,257)
Parliamentary funding:				
Drawn Down		251,985		363,419
Financing relating to:				
Functions transferring in		1,008		–
Functions transferring out		(500)		(113,027)
Deemed Supply		–		7,584
Consolidated Fund Supply Balance 2001-02		–		6,651
Inter-departmental creditors for transfer of functions		(1,798)		(2,905)
Transferred to General Fund of realised element of revaluation reserve (note 24)		525		2,520
Property Construction Costs offset against an established reserve within the General Fund		–		(15,457)
Transferred to Revaluation Reserve		–		(9,435)
Transferred to Donated Asset Reserve		(2,576)		–
Assets introduced (note 13) & (note 3)		101		1,511
Consolidated Fund (creditor) / debtor in respect of:				
Supply		(1,048)		1,838
Cash balances held by entities under net administrative control		(2,848)		–
Non-cash charges:				
Cost of capital	8,706		14,592	
Auditors' remuneration	240		245	
		8,946		14,837
<b>Net increase in general fund</b>		<b>1,799</b>		<b>14,279</b>
<b>General fund at 1 April</b>		<b>226,374</b>		<b>212,095</b>
<b>General fund at 31 March (Schedule 3)</b>		<b>228,173</b>		<b>226,374</b>

## 24. Reserves

	2003-04		2002-03	
	Revaluation reserve		Revaluation reserve	
	£000		£000	
Balance at 1 April		26,824		25,836
Arising on revaluation during the year:				
Statement of Recognised Gains and Losses		(3,500)		(5,927)
Transferred from General Fund		–		9,435
Transferred to Donated Asset Reserve		(385)		–
Transferred to General Fund in respect of realised element of revaluation reserve		(525)		(2,520)
<b>Balance at 31 March</b>		<b>22,414</b>		<b>26,824</b>

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

	2003-04	2002-03
	<b>Donated asset reserve</b>	<b>Donated asset reserve</b>
	<i>£000</i>	<i>£000</i>
Balance at 1 April	1,580	1,552
Additions during the year	50	28
Transferred from General Fund	2,576	–
Transferred from Revaluation Reserve	385	–
Release to the Operating Cost statement	–	–
<b>Balance at 31 March</b>	<b>4,591</b>	<b>1,580</b>

Included in tangible fixed assets note 14 are donated assets classified under the following headings:

	2003-04	2002-03
	<b>Donated asset reserve</b>	<b>Donated asset reserve</b>
	<i>£000</i>	<i>£000</i>
Land and Buildings	2,961	–
Gifts	1,630	1,580
	<b>4,591</b>	<b>1,580</b>

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

The Civil Service Club valued at £2,961,000 was recognised as a donated asset as at 31 March 2004 – see note 14(b).

## 25. Notes to Schedule 5

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

	2003-04	2002-03 Restated
	<i>£000</i>	<i>£000</i>
Objective 1	12,001	8,205
Objective 2	26,452	25,366
Objective 3	51,971	41,712
Objective 4	1,122	21
	<b>91,546</b>	<b>75,304</b>

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

## 26. Capital commitments

	2003-04 £000	2002-03 £000
Contracted capital commitments at 31 March 2004 for which no provision has been made	4,493	14,946

Capital commitments at 31 March 2004 include e-Government commitments of £1.2 million relating to Gateway hosting, support and development and £2.9 million relating to Delivering on the Promise Phase 2, £0.3 million final retention monies relating to refurbishment of 22-26 Whitehall and £0.1 million relating to orders placed for the purchase of vehicles by GCDA as reported in their Annual Report and Accounts.

## 27. Commitments under leases

### 27.1. Operating leases

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

	2003-04 £000	2002-03 Restated £000
<b>Obligations under operating leases comprise:</b>		
Land and buildings :		
Expiry within 1 year	267	-
Expiry after 1 year but not more than 5 years	1,381	2,283
Expiry thereafter	5,777	4,921
	<b>7,425</b>	<b>7,204</b>
Other :		
Expiry within 1 year	7,481	86
Expiry after 1 year but not more than 5 years	935	7,273
Expiry thereafter	3	43
	<b>8,419</b>	<b>7,402</b>

### 27.2. Finance leases

The department's obligations under finance leases are as follows.

	2003-04 £000	2002-03 £000
<b>Obligations under finance leases comprise:</b>		
Rentals due within 1 year	48	48
Rentals due after 1 year but within 5 years	37	85
Rentals due thereafter	-	-
	<b>85</b>	<b>133</b>
Less interest element	(22)	(32)
	<b>63</b>	<b>101</b>

## 28. Commitments under PFI contracts

The department has entered into the following off-Balance Sheet PFI contract in respect of Sunningdale Park.

CMPS' residential training centre at Sunningdale is operated under a PFI contract with a term of 30 years from 13 May 2002. The private sector partner has a lease for the property and has undertaken an initial capital investment of £12,000,000. The department has taken sub-leases back in respect of building over which it retains substantial control. The PFI property is not an asset of the department except for the buildings on which it has sub-leases. A pre-payment has been established for the fair value of the property contributed to the scheme. An asset has been recognised for the department's residual interest in the property which reverts to the department at no cost at the end of the contract. The accruing residual interest, which is being built up over the term of the contract by capitalising part of the contract payments, is recognised as a tangible fixed asset. CMPS buys back the training and serviced office accommodation that it requires. It has guaranteed certain volumes in the first 15 years of the contract.

### *Charge to the Operating Cost Statement and future commitments*

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £3,808,479 (2002-03: £4,020,436); and the payments to which the department is committed during 2004-05, analysed by the period during which the commitment expires, are as follows.

	2003-04 £000	2002-03 £000
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	-	-
Expiry within 11 to 15 years	2,457	2,457
Expiry within 16 to 20 years	-	-
Expiry within 21 to 25 years	-	-
Expiry within 26 to 30 years	-	-
	<b>2,457</b>	<b>2,457</b>

## 29. Other financial commitments

The Cabinet Office has entered into non-cancellable contracts (which are not leases or PFI contracts) for secure data centre hosting services.

The payments to which the Cabinet Office is committed during 2004-05, analysed by the period during which the commitment expires, are as follows:

	£000
Expiry within 1 year	-
Expiry within 2 to 5 years	5,100
Expiry thereafter	-
	<b>5,100</b>

## 30. Contingent liabilities disclosed under FRS 12

There were no material contingent liabilities under FRS 12 at 31 March 2004.

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

There were no other material contingent liabilities at 31 March 2004.

## 32. Losses and special payments

### Losses Statement

	Total Number of cases	£000
Losses	64	159
Special Payments	10	22
<b>Total</b>	<b>74</b>	<b>181</b>

There were no losses or special payments over £100,000.

## 33. Related-party transactions

The Cabinet Office is the parent of the Government Car and Despatch Agency (GCDA). This body is regarded as a related party with which Cabinet Office has had various material transactions during the year.

The Cabinet Office and GCDA undertake the majority of their business with other government departments and other central bodies. None of the board members, key managerial staff or other related parties has undertaken any material transactions with the Cabinet Office during the year.

## 34. Financial instruments

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

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 the currency profile.

### 34.1. Liquidity risk

The department's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. The Cabinet Office is not therefore exposed to significant liquidity risks.

### 34.2. Interest-rate risk

100% of the department's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest, and the Cabinet Office is not therefore exposed to interest-rate risk.

### 34.3. Interest rate profile

The following two tables show the interest rate and currency profiles of the department's financial liabilities and assets.

#### Financial liabilities

Currency					Fixed-rate financial liabilities		Non-interest-bearing financial liabilities
	Total	Floating-rate financial liabilities	Fixed-rate financial liabilities	Non-interest-bearing financial liabilities	Weighted-average interest rate	Weighted-average period for which rate is fixed	Weighted-average period until maturity
	£000	£000	£000	£000	%	Years	Years
<b>At 31 March 2004</b>							
Sterling	7,627	–	38	7,589	20	2	8
<b>Gross financial liabilities</b>	<b>7,627</b>	<b>–</b>	<b>38</b>	<b>7,589</b>	<b>20</b>	<b>2</b>	<b>8</b>
<b>At 31 March 2003</b>							
Sterling	5,321	–	64	5,257	20	6	7
<b>Gross financial liabilities</b>	<b>5,321</b>	<b>–</b>	<b>64</b>	<b>5,257</b>	<b>20</b>	<b>6</b>	<b>7</b>

#### Financial assets

Currency					Fixed-rate financial assets		Non-interest-bearing financial assets
	Total	Floating-rate financial assets	Fixed-rate financial assets	Non-interest-bearing financial assets <sup>a</sup>	Weighted-average interest rate	Weighted-average period for which rate is fixed	Weighted-average term
	£000	£000	£000	£000	%	Years	Years
<b>At 31 March 2004</b>							
Sterling	14,920	–	15	14,905	4	9	Note a
<b>Gross financial assets</b>	<b>14,920</b>	<b>–</b>	<b>15</b>	<b>14,905</b>	<b>4</b>	<b>9</b>	
<b>At 31 March 2003</b>							
Sterling	12,801	–	16	12,785	4	10	Note a
<b>Gross financial assets</b>	<b>12,801</b>	<b>–</b>	<b>16</b>	<b>12,785</b>	<b>4</b>	<b>10</b>	

Note a

a The department's non-interest bearing financial assets comprise cash at bank and in hand of £6,723,600 (2002-03 £3,937,000), and a loan to the London Hostels Association of £464,128 (2002-03 £494,128). Cash at bank and in hand is available on demand. The loan is repayable in full by 2026. PFI £7,716,956 (2002-03 £8,354,000) is repayable between 11 and 15 years.

### 34.4. Foreign currency risk

The department's exposure to foreign currency risk is not significant. Foreign currency income is negligible and foreign currency expenditure at less than 2 per cent of total expenditure is not significant.



### 34.5. Fair values

Set out below is a comparison by category of book values and fair values of the department's financial assets and liabilities as at 31 March 2004.

	Book value	Fair value	Basis of fair valuation
	£000	£000	
<b>Primary financial instruments</b>			
<i>Financial assets:</i>			
Cash at bank	6,724	6,724	
Loan to Civil Service Sports Council	15	15	Note <sup>a</sup>
Loan to London Hostels Association	464	324	Note <sup>b</sup>
PFI Contract	7,717	7,717	
<b>Total</b>	<b>14,920</b>	<b>14,780</b>	
<i>Financial liabilities:</i>			
Finance lease obligations including on-balance sheet			
PFI imputed finance lease obligations	38	38	Note <sup>c</sup>
Provisions	7,589	7,589	Note <sup>d</sup>
<b>Total</b>	<b>7,627</b>	<b>7,627</b>	

#### Notes

- a* Fair value is not significantly different from book value as low fixed rates of interest.  
*b* Cash flows have been discounted at Treasury discount rate of 3.5%.  
*c* Fair value is not significantly different from book value (using discounted Treasury rate).  
*d* Fair value is book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate.

## 35. Third-party assets

The Cabinet Office held funds during the year, which were provided by the European Union for authorised expenditure on the Twinning Project. The Twinning Project was finalised during the year and after transferring remaining funds to appropriate recipients, the account was closed.

These are not departmental assets and are not included in the accounts. The assets held at the balance sheet date to which it was practical to ascribe monetary values comprised monetary assets, such as bank balances and monies on deposit, and listed securities. They are set out in the table immediately below.

	31 March 2003	Gross inflows	Gross outflows	31 March 2004
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit – Twinning Project	298	–	298	–

## 36. Entities within the departmental boundary

The entities within the boundary during 2003–04 were as follows:

**Supply-financed agencies:** Government Car and Despatch Agency

**Advisory Non-Departmental Public Bodies:**

Better Regulation Task Force

Civil Service Appeal Board

Honours Scrutiny Committee

Senior Salaries Review Body

Security Commission

Security Vetting Appeals Panel

Advisory Committee on Advertising

House of Lords Appointments Commission

Committee on Standards in Public Life

Advisory Committee on Business Appointments

Advisory Panel on Public Sector Information  
(previously Advisory Panel on Crown Copyright)

The Annual Report and Accounts of the Government Car and Despatch Agency are published separately.

## 37. Actual outturn – resources and cash

### 37.1. Actual outturn – resources:

Request for Resources 1:

Actual amount net resource outturn **£252,806,677.24.**

Actual amount of savings in resources over Estimate **£26,230,322.76.**

### 37.2. Actual outturn – cash:

Net cash requirement:

Outturn net requirement **£250,937,289.77** which is **£52,152,710.23** less than Estimate.

The actual receipts surrenderable to the Consolidated Fund were **£1,030,424.83.**

## 38. Post balance sheet event

On 28 June 2004 the Cabinet Office terminated its contract with ITNET UK Limited owing to their failure to deliver specified items. This is currently moving towards mediation and it is possible that it may result in litigation. Further details can be found at paragraphs 35 – 37 of the Annual Report.



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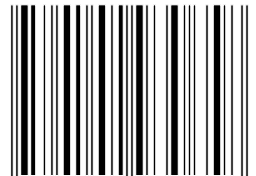
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