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# **Department for Innovation, Universities and Skills**

## **Resource Accounts 2007-08**

Ordered by The House of Commons to be printed  
21 July 2008

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and Skills**

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## Resource Accounts: Department for Innovation, Universities and Skills

### Annual Report

#### Scope

On 28 June 2007 the Prime Minister announced a series of machinery of government changes including the creation of the new Department for Innovation, Universities and Skills (DIUS). The new Department brings together functions from two former Departments; science and innovation responsibilities from the former Department of Trade and Industry (DTI) and skills and further and higher education responsibilities from the former Department for Education and Skills (DfES).

In accordance with the Government's Financial Reporting Manual (FReM), and as explained in note 1.2 (page 46), the resource accounts are presented as though the Department had been in operation for the whole year.

#### 1. Entities within the Departmental accounting boundary

1.1 The Consolidated Resource Accounts include only the following bodies:

- the Department; and
- the National Weights and Measures Laboratory

#### 2. Bodies outside the Departmental accounting boundary

2.1 During 2007-08, DIUS had lead responsibility for the public sector bodies listed below. These are all outside of the Departmental boundary for resource accounts.

2.2 The executive Non-Departmental Public Bodies (NDPBs) have their own Accounting Officers who are responsible to Parliament for the funds received and publish their own accounts separately. Most of the NDPBs are financed through Grant in Aid, with three (Construction Skills, Engineering Construction Industry Training Board and Film Industry Training Board) partly funded by levies which they raise from industry.

##### **Executive Non-Departmental Public Bodies (NDPBs)**

Design Council  
Higher Education Funding Council for England (HEFCE)  
Investors in People UK (iP)  
Learning and Skills Council (LSC)  
Office for Fair Access (OFFA)  
Student Loans Company Ltd (SLC)  
UK Commission for Employment and Skills (became operational on 1 April 2008)  
Sector Skills Development Agency (SSDA) (wound up on 31 March 2008)  
Technology Strategy Board  
National Endowment for Science, Technology and the Arts (NESTA)  
Quality Improvement Agency (QIA)

Arts and Humanities Research Council  
Biotechnology and Biological Sciences Research Council  
Economic and Social Research Council  
Engineering and Physical Sciences Research Council  
Medical Research Council  
Natural Environment Research Council  
Science and Technology Facilities Council

**Executive NDPBs funded by levy**

ConstructionSkills  
 Engineering Construction Industry Training Board (ECITB)  
 Film Industry Training Board (FITB) (to become operational later in 2008)

**Tribunal NDPBs**

Copyright Tribunal

**Trading Funds**

UK Intellectual Property Office

**Advisory NDPB**

Council for Science and Technology  
 Strategic Advisory Board for IP (established 2 June 2008)  
 British Hallmarking Council

**Government Owned Contractor Operated Laboratory**

National Physical Laboratory

**Near to Government**

University for industry Learndirect

**3. Ministers**

3.1 The following ministers formed the ministerial team of the Department during the 2007-08 financial year:

Rt. Hon John Denham	Secretary of State for Innovation, Universities and Skills
Bill Rammell	Minister of State for Lifelong Learning, Further and Higher Education
Ian Pearson	Minister of State for Science and Innovation
David Lammy	Parliamentary Under Secretary of State for Skills
Lord Triesman	Parliamentary Under Secretary of State for Intellectual Property and Quality (left 24 January 2008)
Baroness Delyth Morgan	Parliamentary Under Secretary of State for Intellectual Property and Quality (from 21 January 2008)

**4. Management of the Department***The Board*

4.1 The Board provides collective leadership to the Department and has overall responsibility for its performance. It is also responsible for helping the Permanent Secretary, as Accounting Officer, with the overall running of the Department. It operates as a partnership between professional, policy, delivery and corporate colleagues that:

- creates and delivers the Departmental strategic agenda in support of Ministers, aligned with the Government-wide agenda, leading and implementing best practice and subject to Parliamentary and public scrutiny and probity;

- balances the Departmental agenda with local priorities, and ensures that the whole Department succeeds together;
- inspires a diverse workforce to add value, achieve outcomes and be proud to work for DIUS; and
- manages Departmental Civil Service values, behaviours, reputation and risks.

In particular, it:

- advises on the allocation and management of its financial and human resources;
- monitors the delivery of performance objectives;
- maintains a transparent system of prudent and effective controls;
- assesses and manages risk; and
- leads and oversees the Department's change programme.

4.2 Shortly after its formation in 2007-08 the Department was organised into Groups which were responsible for taking forward a policy programme which was underpinned by a set of Public Service Agreement (PSA) targets against which progress and achievement was measured. Each Group is represented by a Director or Director General on the Board. The composition of the Board during 2007-08 and to the date of this report was as follows:

*Executive board members*

Ian Watmore	Permanent Secretary
Stephen Marston	Director General, Lifelong Learning and Skills
Ruth Thompson	Director General, Higher Education
Sir Keith O'Nions <sup>1</sup>	Director General, Science and Innovation (to 31 March 2008)
Alun Evans <sup>1</sup>	Director General, Science and Innovation (from 1 April 2008)
David Evans	Director, Innovation (from 1 January 2008)
Zina Etheridge	Director, Strategy and Communications
Simon Morys	Director, Business Operations
Nicholas Edmonds <sup>2</sup>	Director, Finance and Performance (to 30 June 2008)
William Dickinson <sup>2</sup>	Director, Finance and Performance (from 1 July 2008)
Shirley Pointer	Director, Human Resources (from 21 January 2008)
Prof John Beddington	Government Chief Scientific Adviser (from 2 January 2008)
Sir David King	Government Chief Scientific Adviser (to 31 December 2007)

<sup>1</sup> Sir Keith O'Nions stepped down on 31 March 2008 as the Director General, Science and Innovation and was replaced by Alun Evans on 1 April 2008.

<sup>2</sup> Nicholas Edmonds acted as the Director, Finance and Performance during 2007-08 and was replaced by William Dickinson on 1 July 2008, both of whom are partners of KPMG, seconded to DIUS on a contracted term.

*Non-executive board members (All appointed from 4 February 2008)*

Alan Aubrey	Non-executive member
Julia King CBE	Non-executive member
Dame Julie Mellor	Non-executive member
Kristina Murrin	Non-executive member

4.3 The Board members have been appointed by the Permanent Secretary (with the approval of the Senior Appointments Selection Committee where appropriate).

4.4 Since the formation of the Department in June 2007, DIUS executive board members have met regularly. The four non-executive board members were appointed on 4 February 2008, and they first sat on the board in April 2008. The non-executive board members provide a non-Departmental perspective in decision-making. They provide an independent judgement on issues of strategy, planning, performance and standards of conduct. Although they advise and question, they do not make executive decisions, and they remain independent of management and free from any other relationships with Government that might interfere with their role.

*Board Structure*

4.5 The DIUS Board is committed to continuous improvement. During 2007-08, when DIUS was first established, the Board consisted of the executive members set out above and was focused on decision-making and governance for the Department, whilst the Audit and Risk Committee functions performed as described below. Since April 2008, the DIUS Board has operated in two forms:

- the Executive Board, which normally meets monthly and consists of only executive members of the Board
- the Strategic Board, which includes both non-executive and executive board members, meets quarterly.

4.6 Minutes of the Board are made available to all staff via the Department's intranet.

*Audit and Risk Committee (ARC)*

4.7 The composition of the DIUS ARC is in line with the guidance in section 5 of HM Treasury's *Corporate Governance in Central Government Departments: Code of Good Practice* ('the Code'). The ARC has been established to advise the Accounting Officer and the Board on audit, risk and control issues, to make recommendations on risk management strategy, and to help ensure that the Department meets corporate governance requirements.

The ARC is chaired by Alan Aubrey, a non-executive member of the Board and has two independent members, Geoffrey Drage and Ian Dickson, with recent and relevant financial experience. Members were appointed and inducted in March 2008, followed by an inaugural meeting of the ARC in April 2008.

From the date of formation of DIUS until December 2007, the Accounting Officer's transitional arrangements were in operation, during which the existing BERR and DCSF internal control and risk management processes in the policy directorates continued while high level risks were reviewed by the DIUS Corporate Centre and considered by the Audit Committees of BERR and DCSF as appropriate.

4.8 The ARC operates in accordance with HM Treasury's *The Audit Committee Handbook March 2007*. The Committee schedules to meet five times a year and all meetings are to be attended by the Permanent Secretary, the National Audit Office (NAO), the Head of Internal Audit, the Director of Finance and Performance and the Head of Corporate Governance. The ARC Terms of Reference have been approved by DIUS ARC members and are available on the DIUS website ([www.dius.gov.uk](http://www.dius.gov.uk)).

#### *Relationships with Arms Length Bodies*

4.9 Section 6 of the Code sets out the relationship departments are expected to have with Arms Length Bodies, which in DIUS's case, it is the relationships with all its Non-Departmental Public Bodies (NDPBs). The Department has ensured there are robust governance arrangements in place with each of its NDPBs and senior DIUS officials regularly attend NDPB Boards and audit committee meetings.

4.10 The Department has established a DIUS Group, consisting of the DIUS Executive Board members and the Chief Executive Officers from the larger NDPBs. Its aim is to provide collective leadership of the delivery system and strengthen relationships with and between strategic partners. Since December 2007, the Group has had quarterly meetings with additional meetings called as and when business need arises. Its agendas have enabled the DIUS Group to influence strategy, delivery and share performance information. Networks are being formed between heads of profession from DIUS and sponsored bodies, beginning with Finance and Communications to secure their collective engagement and exchange of good practice. In addition, the contribution of NDPBs towards achieving the Department's PSA targets and delivery goals is reflected in the Department's internal performance management arrangements.

## **5. Pension liabilities**

5.1 The DIUS balance sheet does not include the pension liabilities of its staff or ministers. The civil servants pension liabilities are part of the Principal Civil Service Pension Scheme (PCSPS) and ministers' pension liabilities are included in the Parliamentary Contributory Pension Fund (PCPF). Both pension schemes publish separate Accounts. Further information on accounting treatment of pension liabilities within the DIUS accounts can be found in the Remuneration Report (pages 25 - 33) and the Notes to the Accounts (Note 1.13 accounting policies page 49).

## **6. Register of interests**

6.1 The Department maintains a register of interests which contains details of company directorships and other significant interests held by Board members. The register is open for inspection by appointment at the Departmental office in London. Anyone wishing to view the register can contact the Department as follows:

- By e-mail to: [watmore.ps@dius.gsi.gov.uk](mailto:watmore.ps@dius.gsi.gov.uk)
- By telephone: 020 3300 8273
- By writing to: Private Office of the Permanent Secretary, Department for Innovation, Universities and Skills, Kingsgate House, 66-74 Victoria Street, London, SW1E 6SW.

## 7. Auditor

7.1 The Comptroller and Auditor General (C&AG) is the auditor of the Department for Innovation, Universities and Skills' Financial Statements. The C&AG, appointed under statute, reports to Parliament the results of his audit examination. The notional cost of work performed by the National Audit Office during 2007-08 of the core accounts was £225,000 and the cost of work on the Consolidated Accounts totalled £246,000 for audit services in respect of DIUS and its agency.

7.2 The National Audit Office (NAO), on behalf of the C&AG, also carries out Value for Money studies for which they do not receive remuneration from DIUS. During 2007-08, the main study completed that related to DIUS's responsibility was:

- Staying the course: the retention of students in higher education.

This document is available on the NAO website ([www.nao.gov.uk](http://www.nao.gov.uk)) under publications.

7.3 The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information. Furthermore he has established that the NAO are aware of that information.

7.4 DIUS was also a witness at the Public Accounts Committee session held on the following NAO report published in November 2007:

- Sustainable employment: supporting people to stay in work and advance.

## 8. Departmental reporting cycle

8.1 The Department publishes the *Departmental Annual Report*, a comprehensive review of its activities and performance. The first Report (Cm 7392) published in May 2008 gives detailed information on the Department's achievements in the 2007-08 financial year, progress against its Public Service Agreement (PSA) targets and expenditure plans based on the resources allocated in the Spending Review 2004 settlement. Further information on the Department's performance in achieving its aims and objectives is available in the *Autumn Performance Report*. These documents are available on the DIUS website ([www.dius.gov.uk](http://www.dius.gov.uk)).

## Management Commentary

### 9. Aim and objectives of the Department

9.1 Britain can only succeed in a rapidly changing world if we develop the skills of our people to the fullest possible extent, carry out world-class research and scholarship, and apply both knowledge and skills to create an innovative and competitive economy. The DIUS mission is to work with our partners to meet these challenges.

9.2 DIUS took over responsibility for three Public Service Agreement (PSA) targets from its predecessor departments, reflecting targets that they had been set in the Spending Review 2004 (SR04). These are:

1. *Science and Innovation* (DTI PSA 2): Improve the relative international performance of the UK research base and increase the overall innovation performance of the UK economy, making continued progress to 2008, including through effective knowledge transfer amongst universities, research institutions and business.
2. *Tackle the adult skills gap* (DfES PSA 13): Increase the number of adults with the skills required for employability and progression to higher levels of training through:
  - improving the basic skill levels of 2.25 million adults between the launch of Skills for Life in 2001 and 2010, with a milestone of 1.5 million in 2007; and

- reducing by at least 40% the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010. Working towards this, one million adults in the workforce to achieve level 2 between 2003 and 2006.

3. *Raise and widen participation in higher education* (DfES PSA 14): By 2010, increase participation in higher education towards 50% of those aged 18 to 30 and also make significant progress year-on-year towards fair access and bear down on rates of non-completion.

9.3 The latest progress on these is detailed in the Departmental Annual Report published in May 2008. They are all assessed as being “on course” for delivery.

9.4 During 2007-08, following on from the announcement of the Comprehensive Spending Review 2007 (CSR07), the Department published revised objectives - its six Departmental Strategic Objectives (DSOs). As part of the CSR07, the Department also developed and published two new cross-government PSAs on which DIUS will lead. These objectives build on and develop on those initially set for the Department. Whilst formally coming into effect from 2008-09, these DSOs and PSAs began to form a focus for planning and activity during 2007-08. They are:

#### *Departmental Strategic Objectives*

Our Strategic Objectives are to:

- Objective 1 - accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life;
- Objective 2 - improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the global economy;
- Objective 3 - build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills;
- Objective 4 - pursue global excellence in research and knowledge, promote the benefits of science in society, and deliver science, technology, engineering and mathematics skills in line with employer demand;
- Objective 5 - strengthen the capacity, quality and reputation of the Further and Higher Education systems and institutions to support national economic and social needs;
- Objective 6 - encourage better use of science in Government, foster public service innovation, and support other Government objectives which depend on the DIUS expertise and remit.

To enable DIUS to deliver these objectives, the Department will strive to add value across the whole delivery chain, be innovative in the way it works internally and with others and be mindful of the intrinsic value of the pursuit and application of knowledge as a worthwhile activity.

#### *Public Service Agreements*

We also have two new two new cross Government PSAs set as part of the CSR07 on which DIUS will lead. These are to:

- PSA 2 - improve the skills of the population, on the way to ensuring a world-class skills base by 2020;
- PSA 4 - promote world-class science and innovation in the UK.

Further details of both these PSAs are available at:

[www.hm-treasury.gov.uk/pbr\\_csr/psa/pbr\\_crs07\\_psagrowth.cfm](http://www.hm-treasury.gov.uk/pbr_csr/psa/pbr_crs07_psagrowth.cfm)

In addition, DIUS will contribute to the achievement of many of the Government's other PSA objectives for CSR07, reflecting the key role skills, science, research and innovation have to play in relation to many of the Government's longer-term and cross-departmental priorities. Details of these are contained in the Department's Business Plan for 2008-09 and are available on the DIUS website ([www.dius.gov.uk](http://www.dius.gov.uk)).

9.5 These Resource Accounts present the Statement of Operating Costs by Departmental Aim and Objectives based on the Department Strategic Objectives set out in 9.4 above. Since the formation of the Department and the publication of these objectives the department has completed its business planning process for 2008/09 based on these new objectives and these objectives now focus activities.

For the purposes of preparing the Statement of Operating Costs by Department Aim and Objectives we have presented the financial data consistent with the allocation of activities to Department Strategic Objective as set out in the business planning process. More details on the Department's Strategic Objectives and the activities allocated to them is available in the Department's Business Plan for 2008-09 and the 2008 Departmental Report 2008 (Command Paper no 7392 issued in May 2008) which are both available on the DIUS website ([www.dius.gov.uk](http://www.dius.gov.uk)).

## **10. Key activities for achieving the Department's objectives during 2007-08**

10.1 During 2007-08, the Department:

- continued to invest in the UK's world-class research facilities and scientists to achieve the Government's ambition of making the UK the most attractive location in the world for science and innovation. This was supported through a £3.4 billion investment in science research through the Science Budget during 2007-08. Significant aspects of activity included:

- establishing a Single Health Research Fund, working with the new Office for Strategic Co-ordination of Health Research (OSCHR), the Department of Health and HM Treasury. This will create a focus for health research;

- establishing the Energy Technologies Institute (ETI), a unique partnership between the public and private sectors, bringing DIUS together with some of the world's biggest companies to establish the UK as one of the leaders in global clean energy technology development;

- investing £500 million during 2007-08 in modern university research facilities.

- continued to implement an effective programme to support innovation, delivered through the Technology Strategy Board, Regional Development Agencies (RDAs) and other delivery partners including the Design Council, the British Standards Institution, and the UK Intellectual Property Office. Some significant aspects of activity included:

- establishing the Technology Strategy Board as an NDPB to promote innovation through a range of mechanisms including Knowledge Transfer Networks, collaborative research and development projects and innovation platforms;

- publication of the science and innovation White Paper *Innovation Nation*, which sets out a clear framework for this country's innovation policy;

- publication of the UK Civil Space Strategy by the British National Space Centre.

- delivered significant achievements through the Government Office for Science included:

- completing a highly influential Foresight project on obesity;
  - supporting and challenging lead Departments on their use of science in a range of emergencies from flooding to animal disease;
  - reviewing the evidence on bovine TB and badgers;
  - supporting the Council for Science and Technology in advising Government on nanotechnology policy and making strategic choices on which technologies to support.
- continued to lead and improve the delivery system creating a workforce that boasts world-class skills – from basic literacy and numeracy through to the highest qualifications. Around 1.76 million adults have improved their basic skills since 2001, and we are on course to meet the 2010 PSA target early. The proportion of the adult workforce qualified to Level 2 or above rose from 74 per cent in 2006 to 74.7 per cent in 2007 and the percentage qualified to Level 3 or above rose from 52.5 per cent to 53.7 per cent over the same period. Some significant aspects of activity included:
- making significant progress on the Train to Gain programme, which went national in August 2006, with over 82,000 employers now engaged with the programme, taking advantage of skills brokerage services, free basic skills, Level 2 learning and subsidised Level 3 learning. Around 185,000 learners have so far achieved a qualification via Train to Gain;
  - setting out how we will expand and improve the Apprenticeship programme, including delivering the new entitlement for young people. With 180,000 young people starting an Apprenticeship in 2006-07 up from 65,000 in 1996–97 and over 130,000 employers now offering them, Apprenticeships are a major route to deliver improved skills that support an innovative and dynamic economy.
- delivered much progress to the higher education system in England, which is currently teaching many more students – from more varied backgrounds - than ever before. In addition institutions' sources of income have broadened: almost across the board, core government funding (via the HEFCE) provides less than half the total. Record numbers of students are applying to higher education every year (307,000 applicants from England were accepted for entry in 2007) and the total number of higher education students in England has increased by approximately 18 per cent since 1997 – to 1.9 million in 2006/07. Other key aspects of activity and delivery include:
- a steadily rising supply of graduates – from 259,000 in 1997, to 319,000 in 2007. Similarly there has been a growth in STEM first degree graduates – the number of first degree science graduates increased by over 20 per cent between 1996/97 and 2006/07.
  - there are now almost 30,000 more students under 30 entering higher education than there were nine years ago, and yet we have maintained the funding available to institutions per student as this number has risen. We remain committed to making progress towards the target 50 per cent participation figure.
  - progress towards fair access continues - for instance with the gap in participation among young people from higher and lower socio-economic classes closing by 3.5 percentage points between 2002/03 and 2005/06. Aspiration is an essential element of determining whether or not individuals choose to go on to higher education. HEFCE's Aimhigher programme has already had a positive impact in this area, and with its funding now having been secured until 2011 it will continue to design and deliver progressive, attainment-raising and aspiration-raising activities.

More information on activities and deliverables by DIUS is available in the Departmental Report 2008 (Command Paper no 7392 issued in May 2008), the Autumn Performance Report (issued December 2007). These documents are available on the DIUS website ([www.dius.gov.uk](http://www.dius.gov.uk)).

## 11. Environmental, social and community issues

### *Sustainability*

DIUS has successfully delivered eight of the nine Sustainable Development Action Plan (SDAP) commitments inherited from the Department of Trade and Industry, covering the work of the Research Councils, Energy Technologies Institute, Technology Strategy Board and GO-Science. DIUS will also reassess and address relevant commitments inherited from the Department for Education and Skills SDAP. For example, through the Learning and Skills Council's capital investment programme Building Colleges for the Future, we are now introducing new standards that will encourage innovation in sustainable design and construction, which will lead to a reduction of the further education sector's carbon footprint.

We have also underscored the importance of sustainability issues in the higher education sector in the annual HEFCE grant letter, and in particular provided capital support for the HEFCE "revolving green fund", which will fund invest-to-save introductions of energy-saving technologies. We are currently undertaking a scoping study to identify the activities already under way in DIUS and its delivery bodies so as to enable us to baseline what we are doing to tackle climate change with a view to:

- identifying where delivery bodies are already working on climate change, including other government Departments;
- identifying areas where DIUS might do more to tackle climate change;
- mapping significant stakeholders;
- mapping other initiatives from across government that are being communicated to our areas;
- mapping other initiatives from the voluntary or private sector that are being communicated to our areas.

Furthermore, following the completion of a preliminary analysis of the Department's six DSOs, we are looking to develop an SDAP that both informs and reflects the activities of this Department going forward. The SDAP will identify how sustainable development fits with DIUS's core business, activities and objectives, and will set out how we will action sustainable development in practice in both operations and policy-making. The SDAP will also identify key commitments for the year ahead.

### *Relationships with employees*

#### General

DIUS is a new and relatively small Government Department. We have the second lowest headcount in Whitehall but the sixth largest budget. DIUS brings together staff and responsibilities for science and innovation from the former Department of Trade and Industry (DTI) and for skills, further and higher education from the former Department for Education and Skills (DfES). The majority of the Department's staff transferred from these legacy Departments (now respectively the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Children, Schools and Families (DCSF)).

Pending harmonisation of pay scales and contractual terms and conditions of employment, employees remain on their pre-existing pay scales and contractual terms and conditions of employment. Moreover, the Department presently operates on the Human Resource systems and processes of these legacy Departments, pending transition to its own dedicated arrangements. Considerations of Departmental size and remit have led to the conclusion that DIUS should have a small corporate centre and secure efficiencies at the outset through the negotiation of a Shared Services contract for all employee-related services. Work is also under way to develop core 'people' policies that reflect DIUS's values and the Departmental Blueprint, underpinned by a Single Equality Scheme and a skills strategy.

### Recruitment Practices

The contractual terms and conditions of employment, policies and recruitment processes of the legacy Departments continue to apply in DIUS pending the introduction of its own arrangements. The legacy Departments recruitment arrangements do differ and DIUS submission tries to reflect the challenges, risks and interim coping measures that have been put in place until it is able to make its own arrangements.

### Diversity

In order to attract the talent we need to deliver our business plans, the Department's approach to equality and diversity is vital. By accessing, recruiting and developing talent from the widest possible talent pool, we can gain an insight into the different needs of our customers and stakeholders and generate greater creativity and innovation in anticipating such needs. This is reflected in the Department's early actions, as follows:

- a member of the DIUS Departmental Board has been appointed as 'diversity champion' – thus putting senior management commitment and drive behind the development and progression of the Department's approach to equality issues;
- a Diversity and Inclusion Programme Board has been set up – chaired by the diversity champion and accountable to the Departmental Board – to set and deliver an effective strategy for the Department and guide our external policies;
- the Programme Board has run staff workshops, cascading information and consulting staff on the priorities for the new Department and also about how best to continue to involve staff in taking forward priorities.

In addition to valuing a diverse workforce, the Department recognises that the culture of the organisation needs to enable everyone to contribute. To this end, staff have already been encouraged to take part in developing the Department in a number of ways:

- The Permanent Secretary has held 'Speak Out' telephone conference sessions, giving all staff the opportunity to ask questions about DIUS and to put forward their views on how the new Department should be structured and developed;
- an "all staff" conference was held on 30 April 2008 to help everyone to influence and take forward the changes necessary to establish the new Department;
- Skills and Inclusiveness has been identified as a specific, priority stream of work in establishing the new Department;
- all staff are being given the opportunity to have their say on how we can achieve our aspiration to lead across central Government in the way we adopt innovative working practices;
- a census staff survey will take place in autumn 2008, including items about the achievement of the diversity and inclusiveness agenda.

A draft Single Equality Scheme for the Department has been developed and is presently the subject of widespread consultation. The associated diversity strategy has been informed by the Civil Service strategy. The following priorities have been identified:

- the creation of a single database for DIUS staff which brings together and reports on consistent definitions, building on the information available from the two predecessor Departments;

- a commitment in principle to the setting of targets on representation (and the actions necessary to meet them) for staff groups which remain under-represented;
- the development of a diversity policy for staff which makes clear individual and line management responsibilities and which helps drive through into staff behaviours and actions the rationale and imperative for DIUS to draw on the widest pool of talent possible.

While the setting of targets should guide the specific actions the Department needs to take, there are clearly a number of basic actions that can be taken to get the foundations in place to support DIUS's aspirations to draw from as wide a range of talent as possible:

- we are committed to examining staff appraisal ratings each year for any signs of bias in awards relating to staff characteristics, and are committed to take appropriate action, depending on the outcome;
- staff perceptions of diversity and inclusion will be sought in annual staff surveys – the next will be in autumn 2008 – the findings will be used to inform the actions we are taking as an employer, including helping to set our equality priorities and targets;
- we support staff engagement in the development of the Department's approach to equality issues;
- as part of our wider approach to training and staff development, we will help raise awareness of equality issues and ensure all those who can benefit from training have that opportunity.

The Department also intends to apply the same aspirations to its employees as it has for employees of other organisations, including the following:

- a commitment to provide up to ten Apprenticeship places as part of a wider initiative to ensure that Government is taking up the opportunities offered by Apprenticeship training. While these places will be awarded on merit, we will encourage and support applications from under-represented groups;
- like all Departments, DIUS has signed the Skills Pledge. It commits us to support all our staff to achieve a first full Level 2 qualification, with support for basic literacy and numeracy where needed. Wherever staff do not meet these skills and qualifications, we will make it a priority to help them achieve them;
- we are proposing to give all staff an entitlement to training and development of five days for personal development. We will put skills centre-stage by requiring all managers to discuss throughout the year the development needs of their staff and how they will use their development days;
- we are also proposing, as a corporate priority, that all staff spend time with our customers and delivery, enabling them to gain a better understanding of their needs and how our policies affect them;
- we will seek Investors in People accreditation, using the new profile assessment during 2009.

The Department will be implementing these actions over 2008–09 and 2009–10 and progress will be reported to the Departmental Board on a half-yearly basis.

#### *Payment policy*

It is DIUS's practice to pay for goods and services after receipt and within 30 calendar days of the invoice date. This policy guarantees the satisfactory receipt of goods and services before payment is made, and ensures that the supplier is paid within a reasonable time. During 2007-08, 99.4% of suppliers were paid within 30 days of receipt of valid invoice. DIUS did not make any interest payments to suppliers under the Late Payment of Commercial Debt (Interest) Act 1998.

## 12. Financial performance

12.1 The following paragraphs are a summary of the financial performance during the year and the investment strategy for the future for programmes which were the responsibility of DIUS.

### *Comparison of outturn to Supply Estimate*

12.2 The Statement of Parliamentary Supply provides information on how the Department has performed against the Parliamentary controls on resources and cash expended by the Department. This information is supplemented by Note 2, which reports outturn in the same format as the Supply Estimate and the Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets.

12.3 The £17.5 billion resource outturn is 3% lower than the resource limit in the Supply Estimate. The total cash consumed was £19.4 billion. This was within the Supply Estimate Net Cash Requirement limit. The full analysis of expenditure by Estimate Line is provided in Note 2. The tables below contain information on the Estimate Lines where the variance is greater than 10% of the budget.

### Request for Resources 1

12.4 In total, RfR 1 outturn was £226 million lower than the Supply Estimate. The single largest variance above 10% of its estimate line is the £73 million underspend where budgets were transferred to HEFCE and LSC. In addition, there is a significant difference on estimate line S where there was a lag in claims received by TSB from their grant recipients and therefore less grants paid out. Further explanations are shown below.

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
Function A - Activities to Support all Functions	73,831	65,277	8,554	Actual administration costs classified under RfR1 have been underspent by £6.4m. This is due to the Department being in operation for only a portion of the year but had a full year budget allocated.
Function B – Higher Education	160,655	87,731	72,924	This variance is mainly due to significant transfers on two budgets during the course of the financial year. The Aim Higher budget transferred around £20m to HEFCE and the LSC for 'aspiration raising activities in colleges and universities'. 'Student support other' transferred its full budget of around £54m to meet overspends on other near-cash student grant budgets.

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
Function G – Higher Education Fees and Awards through Local Education Authorities	1,000	340	660	This function relates to claims from local authorities from previous years for an old system of student support called mandatory awards. We have been working with local authorities to chase up outstanding payments in 2007-08. Spend on mandatory awards is coming to an end and is difficult to forecast hence the underspend in 2007-08.
Function J – Loans to Students	0	(21,152)	21,152	The majority of loans issued and loan repayments received from students appear on the balance sheet however, there is a small element in some years which is not capitalised due to unforeseen accounting adjustments. This year the majority of the adjustment relates to the difference between the payment on account for income received from HMRC in respect of estimated income contingent loan repayments collected in year and the actual repayments reported to the SLC which were deducted from the loan stock. Another smaller adjustment (approx £700,000) is the cost of the re-purchase of loans which were originally sold in 1998 and 1999.
Function M – Student Loan Company	56,080	48,426	7,654	The £56m budget in the Supply Estimate represents the actual cash paid to SLC. It reflects an expectation at the time that the amount of VAT that DIUS could recover would be lower than that in previous years due to an expected HMRC ruling. The HMRC ruling was in fact in our favour and we were able to recover more VAT than we originally profiled for in the estimate.
Function R – Design Council	6,892	6,069	823	The outturn for the Design Council was lower than budgeted due to a slower take-up of Grant in Aid than originally planned.
Function S – Technology Strategy Board	205,100	150,000	55,100	TSB had anticipated a significant proportion of its Grant recipients to submit their claims for payment in the last quarter of 2007-08. Due to longer lag in receiving these claims, TSB could

<b>Estimate Line</b>	<b>Limit</b>	<b>Outturn</b>	<b>Variance</b>	<b>Explanation of variance</b>
	<b>£000</b>	<b>£000</b>	<b>(Over)/under</b>	
			<b>£000</b>	
				not fully utilise its Grant in Aid in 2007-08.
Function U – Activities to Support all Functions	20,000	0	20,000	The provision for impairment on the National Physical Laboratory buildings provided for in the spring supplementary was not required.

## Request for Resources 2

12.5 In total, RfR 2 outturn was £244 million lower than the Supply Estimate. The single largest variance above 10% of its estimate line is the £222 million underspend due to running down of cash reserves from the Medical Research Council (MRC) Commercial Fund and its subsequent need for less Grant in Aid.

<b>Estimate Line</b>	<b>Limit</b>	<b>Outturn</b>	<b>Variance</b>	<b>Explanation of variance</b>
	<b>£000</b>	<b>£000</b>	<b>(Over)/under</b>	
			<b>£000</b>	
Function D – RB Initiatives	11,105	5,024	6,081	The estimate line includes an Exchange Rate Reserve which was transferred to two Research Councils from the central budget to provide budget cover for the effect of adverse exchange rate movements on Euro denominated subscription contracts. The expenditure is now included within the research council expenditure.
Function H – Research Base Administration Costs	3,500	4,056	(556)	This variance is due to additional internal reorganisation costs including the integration of Innovation Economics, Statistics and Evaluation (IESE) into Research Base (RB).
Function I – GO- Science Group Administration Costs	6,625	5,585	1,040	This variance is due to the reclassification of expenditure from programme to admin.
Function J – Biotechnology and Biological Sciences Research Council	(8,306)	(6,537)	(1,769)	Outturn lower than anticipated due to slippage in the Institute of Animal Health capital project at Pirbright..
Function P – Medical	526,516	304,915	221,601	The MRC was holding substantial cash reserves following an in-year change in

Estimate Line	Limit £000	Outturn £000	Variance (Over)/under £000	Explanation of variance
Research Council				treatment of the MRC Commercial Fund, which brought the money within Parliamentary control. These reserves were used up in lieu of Grant in Aid, reducing the net requirement for the year.

12.6 The Operating Cost Statement reports total administration costs and programme costs by request for resource. The net operating cost increased by £1.8 billion from prior year. The increase is predominantly due an £840 million increase in LSC Grant in Aid on programme costs from increased investment in learning and skills, in particular increases in funding for Further Education colleges, School sixth forms, Work Based Learning, and in Train to Gain, and an £840 million increase in the Higher Education support for students Grant in Aid as a result of budget increases to reflect the 2006/07 tuition fee policy being rolled out group by group and increases to the student grant package. There have also been increases in investment in infrastructure, Education Allowances, and in supporting learners with learning difficulties.

12.7 The most significant item on the DIUS balance sheet at 31 March 2008 is student loans. The net assets on the balance sheet have increased by £2.6 billion and this is mainly due to the steady increase in outstanding student loan balances, which increased by £4.8 billion in the current year. The provision on student loans increased by £1.5 billion attributable to the take up of student loans and a revision to the estimates underpinning the provision (further details are provided in Note 21 to the resource accounts). Apart from the increase in debtors and creditors balances, the upward revaluation on land and buildings and an increase in our cash balance, other assets remained fairly unchanged from 2006-07. The increase in creditors is mainly due to balances owing by the Department to BERR

12.8 The cash flow statement provides further information on how the Department financed its activities. The main source of funding is the Consolidated Fund. The statement shows a £909 million increase in the net cash outflow, which reflects the overall increase in expenditure on grant funding. The operating costs include non-cash costs totalling £1.5 billion, most of which relates to increases in provisions for student loans. This represents 9% of net operating costs.

#### *Analysis of trends*

12.9 The table below compares financial performance indicators for 2006-07 to 2007-08. It focuses on administrative costs and student loans, which have a significant impact on the Department's balance sheet.

Indicator	2006-07	2007-08
(i) Gross admin costs as a % of total gross spend	0.26%	0.26%
(ii) Staff costs as a % of gross admin costs	66%	58%
(v) Student loans issued in year	£2,954,116,000	£3,904,970,000
(vi) Repayment of Student loans as a % of opening balance of loans	4.2%	4.6%

*Explanation of trends*

12.10 The gross administration costs expenditure has increased from £61.0 million in 2006-07 to £69.2 million in 2007-08. There are a few factors which contribute to the increase such as the cost of the new accommodation for the Department at Kingsgate House and new IT infrastructure installation.

12.11 The total spent on staff costs in the current year was £42.7 million. The percentage of staff costs has decreased in the current year due to the shared service costs included within the total 2007-08 Gross administration costs which proportionately decreased the staff costs percentage.

12.12 There has been a £951 million increase in the value of student loans issued during the year. This is mainly explained by the introduction of the 2006/07 variable tuition fee reforms in particular the introduction of fee loans which are being rolled out group by group. As well as this new policy student numbers have also increased.

12.13 The cash repayment of student loans continues to increase and this is reflected in the increase in the rate of repayment to 4.6%.

*Reconciliation of resource expenditure between Estimates, Accounts and Budgets*

	2007-08	2006-07
	£000	£000
<b>Net Resource Outturn (Estimates)</b>	<b>17,478,320</b>	<b>15,617,709</b>
<i>Adjustments to remove:</i>		
Provision voted for earlier years		
<i>Adjustments to additionally include:</i>		
non-voted expenditure in the OCS	-	-
Consolidated Fund Extra Receipts in the OCS	(95,955)	(3,182)
Other adjustments	-	-
<b>Net Operating Cost (Accounts)</b>	<b>17,382,365</b>	<b>15,614,527</b>
<i>Adjustments to remove:</i>		
Capital Grants	(84,677)	(116,129)
voted expenditure outside the budget	(384,735)	(261)
<i>Adjustments to additionally include</i>		
other Consolidated Fund Extra Receipts	92,830	-
resource consumption of Non-Departmental Public Bodies	(1,369,038)	(1,008,553)
Other adjustments	-	10,850
<b>Resource Budget Outturn (Budget)</b>	<b>15,636,745</b>	<b>14,500,434</b>

*of which*

Departmental Expenditure Limits (DEL)	15,458,351	14,324,740
Annually Managed Expenditure (AME)	178,394	175,694

*Future developments**Comprehensive Spending Review*

12.14 DIUS's overall settlement for the CSR07 period was announced in the Chancellor of the Exchequer's 2007 Pre-Budget Report and CSR07 Statement in October 2007. This settlement set the Department's revenue and capital budgets for the period April 2008 – March 2011. Overall investment will increase by an average of 2.2% in real terms over each of the next three years with total capital budgets of £1,990; 2,205; 2,260 million over the three years.

12.15 The settlement allocated to DIUS provides funding for the Department to deliver against on-going commitments as well as make progress in new areas such as responding to the challenges of the Leitch Review of Skills. There is increased emphasis on value for money and controlling future costs.

12.16 DIUS is tasked to deliver value for money savings of £1.5 billion by 2010–11 (against a baseline of 2007–08 expenditure, adjusted for inflation). This figure includes a reduction to the central admin budget by 5% per year. DIUS published a Value for Money Delivery document in December 2007 to explain how these savings will be achieved. Further details on this can be found on the DIUS website ([www.dius.gov.uk](http://www.dius.gov.uk)).

12.17 The CSR07 settlement will provide at least £50 million of new resources by 2010–11 to support co-funding in the higher education sector, working closely with business to make real progress in responding to the skills needs of employers and their staff. The Higher Education Funding Council for England (HEFCE) has been asked to develop a new funding model that is co-financed with employers, achieves sustained growth in employer-based student places, and introduces the principle of demand-led funding.

*Student Loans*

12.18 In the 2007 Budget Statement, the Government announced its intention to sell student loans totalling around £6 billion between 2008-09 and 2010-11. The Government is therefore currently examining the possibility of selling part of the student loans book. New legislation, which is due to be enacted on 22 July 2008, will enable but not commit the Government to sell any loans, and any sale is subject to confirmation that this would provide value for money. It is expected to be several months before any final decision is made.

12.19 These resource accounts present the student loans portfolio valued on the basis that they are held to maturity until such a time as a decision to sell the assets has been made. This is consistent with prior years, and reflect the valuation basis appropriate under the Treasury Financial Reporting Manual. Should sales take place in 2008-09 or subsequently it will be necessary to re-assess the basis of valuation in accordance with the relevant Generally Accepted Accounting Practice (GAAP). In addition, Financial Reporting Standard (FRS) 26 on the Recognition and Measurement of Financial Instruments, to be applied for the 2008-09 financial period, may also impact on the value shown in future.

*Innovation Nation*

12.20 In March 2008, DIUS published a White Paper 'Innovation Nation', together with BERR and HMT. It described our aim to make Britain the best country in the world to run an innovative business or public service. It set out a broad agenda of policy activities to help achieve this in partnership with other Departments, delivery partners and stakeholders. This gave a strong focus on demand-side activities. For example, Departments committed to producing plans which set out how they will drive innovation through

innovative procurement practices from 2009-10. Other proposals covered exploitation of research, promoting innovation through international policies and programmes, support for innovation in business, people and places and promoting wider and deeper innovation in the public sector.

12.21 Innovation Nation committed to reporting on progress on developing these policy proposals together with an updated assessment of the UK's innovation performance in the Annual Innovation Report. The first of these will be produced in Autumn 2008.

12.22 DIUS will invest more than £1 billion over the CSR07 period to support innovation through a broad range of activities including over £600 million support for the business led Technology Strategy Board.

12.23 UK researchers are amongst the most talented and productive in the world. To ensure the UK retains its world leading position, second only to the USA, in research, DIUS will invest over £10 billion in science and research during the CSR07 period, with the Science and Research annual budget rising to just under £4 billion by 2010-11.

#### *Significant contingent liabilities*

12.24 Note 30 to the Accounts provides updated information on the contingent liabilities which the DIUS was required to report to Parliament at 31 March 2008. The two largest contingent liabilities in the accounts were items inherited from predecessor department DFES, as follows:

- an indemnity to meet the reimbursements of European Social Fund or European Regional Development Fund grants previously paid to Training and Enterprise Councils (TECs). The outstanding unaudited balance that could potentially be requested by European auditors has fallen from £60.7million to £27.9 million;
- an indemnity to provide landlords a guarantee in the event of when the Learning and Skills Council (LSC) ceases to exist and leases will be transferred over to the Secretary of State. The estimated liability in such event is £30.6 million.

### **13. Investment**

13.1 The Comprehensive Spending Review (CSR) 2007 settlement allowed for continuous significant investment in the post-19 education, skills and research estates. This additional funding will deliver further changes and improvements to the learning landscape. This investment is key to drive forward the Department's strategic objectives and achieving its PSA targets.

13.2 Since the 1998 CSR, there has been a significant and growing capital investment in each of the sectors for which DIUS is now responsible. Working with our partners, we aim to ensure capital investment represents good value for money.

13.3 The Department works with a range of partners, including local authorities (LA's) and NDPB's who play an important role in delivering the Department's investment plans. Not all investments are reflected in the asset base of DIUS.

#### ***Further Education***

13.5 Recent improvements in results achieved by the education and training system owe a great deal to the Further Education (FE) and Skills sector but we have more to do to improve the nation's skills at every level and ensure that high-quality learning opportunities are available to people at every stage of their adult lives. *World Class Skills: Implementing the Leitch Review of Skills in England* (published in July 2007) was the Government's implementation plan following on from Lord Leitch's December 2006 report *Prosperity for all in the global economy – world class skills*. It sets out the ambition and strategy needed to ensure that the

workforce in England has world-class skills by 2020.

13.6 Too many adults still do not have the basic literacy and numeracy skills needed even to start to climb the skills ladder. In each of the next three years therefore, we will spend about £1.5 billion on basic skills initiatives. We must also bring learning opportunities to all adults in the workplace and encourage them to seek out the skills they need to get on. We will continue our campaign for more employers to sign the Skills Pledge, which after only one year already covers some 4 million employees. More employers are utilising training opportunities via our brokerage service, Train to Gain, on which we will be spending over £1 billion by 2011. New vocational qualifications will meet industry skill needs as set by Sector Skills Councils. And we have over 18,000 union learning representatives supporting people wanting to increase their skills.

13.7 Opportunity, *Employment and Progression: Making Skills Work* sets out the next steps in developing Integrated Employment and Skills (IES) services. We will, with the Department for Work and Pensions, move more people into sustainable employment and progression. Trials of IES services will be developed in the autumn of 2008, including Skills Accounts, the Adult Advancement and Careers Service, continued improvement of the Employability Skills Programme, a flexible New Deal, Local Employment Partnerships and city strategies.

13.8 The expansion of Apprenticeships will continue; the number of Apprenticeships has doubled and the completion rate has nearly trebled. At present, one in 15 young people takes an Apprenticeship. Our ambition is to increase that to one in 5. This expansion will be underpinned by an Apprenticeships Bill, which will legislate to give every suitably qualified Apprenticeships Service to take responsibility for the Apprenticeship programme.

13.9 Proposals for new pre and post-19 further education systems are set out in *Raising Expectations: enabling the system to deliver*. Together with the Leitch Implementation Plan, they will create a further education system that will deliver the Government's ambition for skills in England. The major challenge for DIUS is to develop and establish a new post-19 system. This will replace the Learning and Skills Council with a streamlined Skills Funding Agency, the National Apprenticeship Service, the Adult Advancement and Careers Service and the National Employer Service.

13.10 The further education White Paper *Raising Skills, Improving Life Chances* explained that we would introduce performance indicators for providers of further education, alongside overall performance ratings. This approach, known as Framework for Excellence, will provide an increasing range of information for learners and employers about different types of provider. This will help people make informed choices and give the Government assurance about the performance of the system as a whole. While providers carry the primary responsibility for their own performance and improvement, all can benefit from external support, especially those that are failing to improve the quality of their work with sufficient urgency.

13.11 The Quality Improvement Agency and the Centre for Excellence in Leadership have merged into the Learning and Skills Improvement Service (LSIS) to become a single powerful, focused force for improvement. An overarching National Improvement Strategy will drive up quality and performance, underpinned by specific plans for strategically significant areas of activity such as workforce and technology.

13.12 The capital investment strategy will continue to renew and modernise further education establishments to create state-of-the-art facilities. We have committed £2.3 billion over the next three years, to build colleges for the future.

### ***Higher Education***

13.13 Capital expenditure in higher education supports strategic outcomes in terms of the excellence; relevance and sustainability of UK research; and in terms of raising the quality and cost efficiency of teaching.

13.14 In 2007-08 there were two main capital programmes through the Higher Education Funding Council for England (HEFCE):

- The Science and Research Investment Fund (SRIF) -this fund has allowed universities to tackle the historic backlog of underinvestment in research infrastructure;
- Learning and Teaching Capital funding is provided to both higher education institutions and further education colleges.

13.15 In CSR07, SRIF will be replaced by a new Research Capital Investment Fund created for universities carrying out Research Council funded projects. The new fund will help universities maintain their research infrastructure .

13.16 The capital budgets for HEFCE in CSR07 will among other things allow them to commit resources to the Green Development Fund. While higher education institutions have made some progress in reducing their carbon emissions, more needs to be done if the 2050 commitment to reduce emissions by 60% is to be achieved and this fund will help progress towards that goal.

13.17 During CSR07 we will take forward the high-level skills strategy we published, *Higher Education At Work - High Skills: High Value*. As detailed in this strategy we are determined to meet the Leitch ambition of at least 40 per cent of adults qualified to Level 4 or above by 2020, supporting the achievement of PSA2 under CSR07.

13.18 We are continuing to expand Foundation Degrees as a flexible and accessible route to higher-level qualifications. Integrating academic study with work-based learning, Foundation Degrees are particularly suited to people who would not usually consider taking up higher education – i.e. those already at work. According to the Higher Education Funding Council for England report published in May 2008, nearly 73,000 students were registered (or were expected to register) on Foundation Degree programmes in 2007/08. So we are well on the way to meeting our target of 100,000 by 2010.

13.19 In July 2007, we announced major changes to the system of student support. From September 2008, the minimum threshold (of family income) for a full maintenance will be raised from £17,500 to £25,000 a year. The maximum threshold has been raised to £60,005. In addition, all students starting a higher education course in 2008/09 or later (who will be taking out their first student loan with a repayment start date of April 2012 or later) will also be entitled to a repayment holiday of up to 5 years. Also we have announced a guaranteed level of maintenance support from 2008/09 for young people who choose to participate in higher education and who receive the Education Maintenance Allowance.

13.20 The Department launched its New University Challenge initiative in March 2008. In recent years funding has been provided by the Higher Education Funding Council for England in partnership with Regional Development Agencies (RDAs) and other partners for eleven new local university centres, with a further six agreed in principle for funding. The new Challenge sets out the Government's ambition to fund twenty more centres over the next six years.

## **Science**

13.21 Funding for the Medical Research Council will increase to maintain research excellence and help deliver a range of new priorities, including support for translational research and clinical trials to implement the recommendations of the Cooksey Review. This will form part of the single health research fund co-ordinated by the Office of Strategic Coordination of Health Research (OSCHR).

13.22 DIUS has committed to invest up-to £500 million over the next ten years in the Energy Technologies Institute (ETI) which is a public-private partnership. The ETI will help to deliver UK's climate change goals by bringing more focus, ambition and collaboration to the UK's work in energy science and engineering.

13.23 Research Councils have developed four cross-council multidisciplinary projects to tackle key challenges such as the £1 billion programme on 'Living with Environmental Change'.

13.24 Knowledge Transfer will receive a boost in funding, including the Higher Education Investment Fund which will receive £150 million a year by 2010-11, to strengthen links between academia and business and help take research from laboratory bench to market.

13.25 Large Facilities - £400 million investment to develop large-scale facilities throughout the UK, examples of which include a £67 million contribution to the rebuilding of the Laboratory of Molecular Biology and the design and construction of a further ten beam lines to complete the Diamond Synchrotron Light Source facility.

### **Innovation**

13.26 The National Physical Laboratory (NPL) is responsible for providing traceability to national and international measurement standards and for providing increasingly accurate standards for use in trade, industry, academia and government. It is recognised as one of the world-leading national measurement institutes. DIUS will invest around £33 million capital over the CSR07 period on NPL redevelopment.

13.27 Construction of a new Clinical Linac facility at NPL will be completed in 2008-09. This facility, constructed in collaboration with the Department of Health, will lead to improvements in the traceability to national and international standards of X-ray therapy machines used for cancer treatment within the NHS. In addition it will allow NPL to offer enhanced training opportunities to clinicians in the measurement techniques required to use X-ray therapy machines most effectively.

13.28 Planning is underway on the next phase of the NPL redevelopment. Central to this is a proposed Advanced Metrology Laboratory which would provide the environment to keep the UK at the forefront of measurement science worldwide.

## **14. Reporting of personal data related incidents**

This section contains a summary of incidents related to personal data in core DIUS and its delivery partners for the financial year 2007-08<sup>1</sup>.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

<b>TABLE 1: SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2007-08</b>				
<b>Date of incident (month)</b>	<b>Nature of incident</b>	<b>Nature of data involved</b>	<b>Number of people potentially affected</b>	<b>Notification steps</b>
			<b>NIL</b>	

<sup>1</sup> The delivery partners included in the summary are: AHRC, BBSRC, ConstructionSkills, Design Council, ECITB, EPSRC, ESRC, HEFCE, Investors in People, LSC, MRC, NERC, NESTA, NPL, NWML, OFFA, QIA, SLC, SSDA, STFC, TSB, Ufi/learnirect, UK-IPO

<b>Further action on information risk</b>	<p>The Department will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.</p> <p>Planned steps for the coming year include:</p> <ul style="list-style-type: none"> <li>• Ongoing development of information assurance policies and procedures in line with business need and guidance from Cabinet Office</li> <li>• Regular scrutiny of information risks throughout DIUS and its delivery chain</li> <li>• Training for staff on information security issues</li> <li>• Implementing an improved formal structure for monitoring information assets</li> </ul>
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**TABLE 2: SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2007-08**

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

<b>Category</b>	<b>Nature of incident</b>	<b>Total</b>
<b>I</b>	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	NIL
<b>II</b>	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	NIL
<b>III</b>	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	NIL
<b>IV</b>	Unauthorised disclosure	NIL
<b>V</b>	Other	NIL

**TABLE 3: YEAR-ON-YEAR TOTAL NUMBERS OF PROTECTED PERSONAL DATA RELATED INCIDENTS PRIOR TO 2007-08**

Total number of other protected personal data related incidents, by category number						
	I	II	III	IV	V	Total
<b>2006-07</b>	7	11	0	0	0	18
<b>2005-06</b>	5	11	0	0	0	16

There were no reported incidents to the Information Commissioners Office during this period.

## Remuneration Report

### 15. Ministers' and board members' remuneration policy

15.1 Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

15.2 The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership comprises the Chairman of the Senior Salaries Review Body (SSRB) (who acts as chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury.

15.3 Performance management and reward policy for members of the Senior Civil Service including board members is managed within the central framework set by the Cabinet Office. It allows for annual performance related base pay and bonus awards, agreed centrally each year following SSRB recommendations. The Senior Civil Service Performance Management Guidance for 2007-08, which explains how base pay and bonus levels are determined and their relative value, can be found at: [www.civilservice.gov.uk](http://www.civilservice.gov.uk). The SCS performance bonuses are allocated from a central 'pot' expressed as a percentage of DIUS's SCS salary bill, which is set centrally each year following the SSRB recommendations. In 2006-07 this "pot" was limited by the Cabinet Office to 7.6% of the total SCS salary bill from which individuals were awarded varying amounts, dependant on performance.

### 16. Summary and explanation of policy on duration of contracts, notice periods and termination payments

16.1 The permanent head of the Department (the 'Permanent Secretary') is appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial head of the Department.

16.2 Members of the Executive Management Board are appointed by the Permanent Secretary with the agreement of the Prime Minister and the Senior Leadership Committee where appropriate, which consists of

Permanent Secretaries from across Whitehall and is chaired by the Cabinet Secretary.

16.3 All board members contractual terms comply with the requirements set centrally for the Senior Civil Service by Cabinet Office, and the exact terms offered reflect the requirement of the post. The principles governing recruitment to, and departure from the Civil Service, including details of compensation for early termination, are set out in the Civil Service Management Code at the website [www.civilservice.gov.uk](http://www.civilservice.gov.uk).

## 17. Details of board members' service contracts

17.1 The contractual terms of DIUS board members during 2007-08 are shown in the following table.

### *Contractual terms for board members*

	<b>Date of Appointment to Position</b>	<b>Type of Contract</b>	<b>Unexpired term at 31/3/08</b>	<b>Details of Notice Period</b>
Mr Ian WATMORE <i>Permanent Secretary</i>	28 June 2007	Indefinite	Not applicable	3 months in writing
Mr Stephen MARSTON <i>Director General</i>	28 June 2007	Indefinite	Not applicable	3 months in writing
Ms Ruth THOMPSON <i>Director General</i>	28 June 2007	Indefinite	Not applicable	3 months in writing
Sir Keith O'NIONS <i>Director General</i>	28 June 2007	Fixed Term Appointment	Expired	Not Applicable
Mr Simon MORYS <i>Director</i>	28 June 2007	indefinite	Not applicable	3 months in writing
Ms Zina ETHERIDGE <i>Director</i>	28 June 2007	Indefinite	Not applicable	3 months in writing
*Mr Nicholas EDMONDS <i>Director</i>	1 July 2007	Seconded	1 year and 3 months	1 month in writing
Ms Shirley POINTER <i>Director</i>	21 January 2008	Fixed Term Appointment	2 years	6 months in writing
David EVANS <i>Director</i>	1 January 2008	Indefinite	Not applicable	3 months in writing

	<b>Date of Appointment to Position</b>	<b>Type of Contract</b>	<b>Unexpired term at 31/3/08</b>	<b>Details of Notice Period</b>
Prof John BEDDINGTON <i>Chief Scientific Adviser (from 1 January 2008)</i>	2 January 2008	Fixed Term Appointment	2 years 6 months	3 months in writing
Sir David KING <i>Chief Scientific Adviser (to 31 December 2007)</i>	28 June 2007	Fixed Term Appointment	Expired	Not Applicable

\* Nicholas Edmonds was seconded from KPMG for a period of six months up to a maximum of two years from 01/07/07. William Dickinson replaced Nicholas on 01/07/08 on a new one year contract.

The details of notice in the above table relates to the notice the individual is required to give if they intend leaving the Department. If the Department decides to terminate a contract it is required to give 6 months notice.

The following information is Audited

## 18. Salaries and benefits

18.1 The table below contain details of the salaries and benefits in kind paid to Ministers and the Department's senior managers. '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.

<i>Ministers</i>	<b>2007-08</b>	
	<b>Salary</b>	<b>Benefits in kind (rounded to nearest £100)</b>
Rt. Hon John DENHAM MP <i>Secretary of State (from 29 June 2007)</i>	£58,105 (£76,904 <i>full year equivalent</i> )	-
Bill RAMMELL MP <i>Minister of State (from 29 June 2007)</i>	£30,031 (£39,893 <i>full year equivalent</i> )	-
Ian PEARSON MP <i>Minister of State (from 30 June 2007)</i>	£29,920 (£39,893 <i>full year equivalent</i> )	-
David LAMMY MP <i>Parliamentary Under Secretary of State (from 30 June 2007)</i>	£22,794 (£30,280 <i>full year equivalent</i> )	-

<i>Ministers</i>	2007-08	
	Salary	Benefits in kind (rounded to nearest £100)
*Lord TRIESMAN <i>Parliamentary Under Secretary of State (from 30 June 2007 to 24 January 2008)</i>	£59,882 (£106,076 <i>full year equivalent</i> )	-
*Baroness MORGAN <i>Parliamentary Under Secretary of State Minister in the House of Lords (from 21 January 2008)</i>	£0 (£0 <i>full year equivalent</i> )	-

\* Lord Triesman was a ministerial board member of DIUS up until the 24 January 2008 and was later replaced by Baroness Morgan.

18.2 The totals above represent 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 a Member of Parliament (MP) (£60,675 for 2007-08 and £60,277 from 1 November 2006, £59,686 from 1 April 2006) 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 House of Lords and is therefore shown as nil in the table above.

#### *Board members*

	2007-08	
	Salary £000	Benefits in kind (rounded to nearest £100)
Mr Ian WATMORE <i>Permanent Secretary (from 28 June 2007)</i>	135-140 (185-190 <i>full year equivalent</i> )	-
Mr Stephen MARSTON <i>Director General (from 28 June 2007)</i>	120-125 (150-155 <i>full year equivalent</i> )	-
Ms Ruth THOMPSON <i>Director General (from 28 June 2007)</i>	105-110 (135-140 <i>full year equivalent</i> )	-
Sir Keith O'NIONS <i>Director General (from 28 June 2007)</i>	115-120 (150-155 <i>full year equivalent</i> )	-

	2007-08	
	Salary £000	Benefits in kind (rounded to nearest £100)
Mr Simon MORYS <i>Director (from 28 June 2007)</i>	65-70 (85-90 <i>full year equivalent</i> )	-
*Ms Zina ETHERIDGE <i>Director (from 28 June 2007)</i>	65-70 (85-90 <i>full year equivalent</i> )	-
**Mr Nicholas EDMONDS <i>Director (from 1 July 2007)</i>	90-95 (120-125 <i>full year equivalent</i> )	-
Ms Shirley POINTER <i>Director (from 21 January 2008)</i>	20-25 (115-120 <i>full year equivalent</i> )	-
Mr David EVANS <i>Director (from 1 January 2008)</i>	25-30 (115-120 <i>full year equivalent</i> )	-
Prof John BEDDINGTON <i>Chief Scientific Adviser (from 1 January 2008)</i>	40-45 (165-170 <i>full year equivalent</i> )	-
Sir David KING <i>Chief Scientific Adviser (from 28 June 2007 to 31 December 2007)</i>	140-145 (170-175 <i>full year equivalent</i> )	-

\* Zina Etheridge was seconded from the Cabinet Office and DIUS pays her full salary.

\*\* Nicholas Edmonds was on secondment from KPMG during 2007-08. Under the arrangement, DIUS contributes an annual payment of £125,000 to KPMG LLP.

18.3 The non executive board members excluding Dame Julie Mellor receive an annual salary of £12,600.

18.4 The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

## 19. Non-cash elements of the remuneration package

19.1 The board members' remuneration packages do not contain non-cash benefits.

## 20. Pension benefits

### *Ministers*

20.1 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 MP's may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40<sup>th</sup> since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50<sup>th</sup> accrual rate and a lower rate of employee contribution.

20.2 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 from age 65. Pensions are increased annually in line with the changes in the Retail Prices Index (RPI). Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50<sup>th</sup> accrual rate.

20.3 Those members who have opted for the 1/40<sup>th</sup> accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8% of the ministerial salary.

20.4 The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

20.5 The PCPF have provided the following information in respect of DIUS Ministers:

	Accrued pension at age 65 at 31/03/08 £000	Real increase in pension at age 65 £000	CETV at 31/03/08 £000	CETV at 31/03/07 £000	Real increase in CETV £000
<sup>1</sup> Rt. Hon John DENHAM MP <i>Secretary of State (from 29 June 2007)</i>	5-10	0-2.5	76	63	6
<sup>1</sup> Bill RAMMELL MP <i>Minister of State (29 June 2007)</i>	0-5	0-2.5	45	37	4
<sup>1</sup> Ian PEARSON MP <i>Minister of State (30 June 2007)</i>	5-10	0-2.5	55	47	3
<sup>1</sup> David LAMMY MP <i>Parliamentary Under Secretary of State (30 June 2007)</i>	0-5	0-2.5	29	23	1

	Accrued pension at age 65 at 31/03/08 £000	Real increase in pension at age 65 £000	CETV at 31/03/08 £000	CETV at 31/03/07 £000	Real increase in CETV £000
<sup>1</sup> Lord TRIESMAN MP <i>Parliamentary Under Secretary of State (30 June 2007)</i>	5-10	0-2.5	100	81	9
<sup>1*</sup> Baroness MORGAN <i>Parliamentary Under Secretary of State Minister in the House of Lords (from 21 January 2008)</i>	-	-	-	-	-

<sup>1</sup> CETV is at the date Ministers join the Department

20.6 The **Cash Equivalent Transfer Value (CETV)** is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. 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 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. The figures include the value of a pension benefit in another scheme or arrangement which the individual has transferred. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries, and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

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

*Board members*

20.8 Pension benefits are provided through the Civil Service Pension (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).

20.9 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 1/80<sup>th</sup> 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 1/60<sup>th</sup> 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.

20.10 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).

20.11 The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

	Accrued pension at age 60 as at 31/03/08 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/08	CETV at 31/03/07	Real increase in CETV	Employer contribution to Partnership pension account (nearest £100)
	£000	£000	£000	£000	£000	
Mr Ian WATMORE <i>Permanent Secretary</i>	5-10 plus nil lump sum	0-2.5 plus nil lump sum	106	67	17	Nil
Mr Stephen MARSTON <i>Director General</i>	40-45 plus 120-125 lump sum	0-2.5 plus 5-7.5 lump sum	691	518	35	Nil
Ms Ruth THOMPSON <i>Director General</i>	50-55 plus 155-160 lump sum	5-7.5 plus 17.5-20 lump sum	1130	800	136	Nil
Sir Keith O'NIONS <i>Director General</i>	50-55 plus 150-155 lump sum	0-2.5 plus 2.5-5 lump sum	1226	1089	24	Nil
Mr Simon MORYS <i>Director</i>	35-40 plus 105-110 lump sum	0-2.5 plus 5-7.5 lump sum	652	501	35	Nil
Ms Zina ETHERIDGE <i>Director</i>	10-15 plus 15-20 lump sum	2.5-5 plus 2.5-5 lump sum	150	78	39	Nil
*Mr Nicholas EDMONDS <i>Director</i>	-	-	-	-	-	-
Ms Shirley POINTER <i>Director</i>	5-10 plus nil lump sum	0-2.5 plus nil lump sum	141	128	6	Nil
Mr David EVANS	50-55 plus	0-2.5 plus	1215	1173	-3	Nil

	Accrued pension at age 60 as at 31/03/08 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/08	CETV at 31/03/07	Real increase in CETV	Employer contribution to Partnership pension account (nearest £100)
	£000	£000	£000	£000	£000	
<i>Director</i>	120-125 lump sum	0-2.5 lump sum				
Prof John BEDDINGTON <i>Chief Scientific Adviser (from 1 January 2008)</i>	0-5 plus nil lump sum	0-2.5 plus nil lump sum	15	16	-1	Nil
Sir David KING <i>Chief Scientific Adviser (from 28 June 2007 to 31 December 2007)</i>	5-10 plus nil lump sum	0-2.5 plus nil lump sum	119	93	20	Nil

\* Nicholas Edmonds was on secondment from KPMG during 2007-08 and is not in the civil service pension scheme.

20.13 The Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. 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 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 membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of a pension benefit in another scheme or arrangement which the individual has transferred. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries, and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

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

## 21. Amounts payable to third parties for services of senior managers

21.1 Nicholas Edmonds joined the Department on secondment from KPMG LLP on 1 July 2007. The secondment was for a period of six months to two years. The secondment was on the basis of an annual payment of £125,000 payable to KPMG.

**Ian Watmore**  
Accounting Officer

Date: 17 July 2008

## Statement of Accounting Officer's Responsibilities

Under Section 5 of the Government Resources and Accounts Act 2000, the HM Treasury has directed the Department for Innovation, Universities and Skills to prepare, for each financial year, Resource Accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department for Innovation, Universities and Skills and of its net resource outturn, resources applied to the objectives, recognised gains and losses and cash flows for the financial year.

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

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

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

## DIUS STATEMENT ON INTERNAL CONTROL 2007-08

### Introduction

This is the first annual Statement on Internal Control for the Department for Innovation, Universities and Skills' (DIUS). The Department was created following the Machinery of Government changes on 28 June 2007. As Permanent Secretary, I have had responsibility for establishing the new Departmental internal control framework and was formally appointed as Accounting Officer for the full financial year on 13 December 2007 by HM Treasury, following Parliamentary approval of the Winter Supplementary Estimate 2007-08.

In the period to 12 December 2007, the Department operated within Accounting Officer transition arrangements: David Bell, Permanent Secretary, the Department for Children, Schools and Families (DCSF), held formal Accounting Officer responsibility for Higher Education Group and Further Education and Skills Group and a proportion of funds set aside to support the development of the Department's Corporate Centre (formerly operating within the Department for Education and Skills); Brian Bender, Permanent Secretary, the Department for Business Enterprise and Regulatory Reform (BERR), held Accounting Officer responsibility for Science and Innovation Group, the Government Office for Science and a proportion of funds set aside to support the development of the Department's Corporate Centre (formerly operating within the Department of Trade and Industry).

This Statement on Internal Control relates to the full financial year from 1 April 2007 to 31 March 2008 and I have received the relevant assurances on internal control and risk management arrangements from both the Accounting Officers for DCSF and BERR for the period 1 April 2007 to 12 December 2007.

### Scope of responsibility

As Accounting Officer, in accordance with the responsibilities assigned to me in *Managing Public Money*, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Innovation, Universities and Skills' policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets (ensuring propriety and regularity, the keeping and presentation of proper accounts, prudent and economical administration, the avoidance of waste and extravagance, and the efficient and effective use of available resources).

The Departmental Board is responsible for helping the Permanent Secretary (as Accounting Officer) with the overall running of the Department, creating and delivering a Departmental strategic agenda in support of Ministers, aligned with the Government-wide agenda, leading and implementing best practice and subject to Parliamentary and public scrutiny and probity. The Departmental Board has met regularly since July 2007, and since April 2008 includes four non-executive members. It discusses all strategic policy management issues. This includes providing direction on major policy, delivery, operational and control issues, reviewing performance and ensuring that the Department is working economically, efficiently and effectively.

Within the Department I have required each Director General, and the heads of certain other units which report directly to me, to sign an annual statement reviewing the effectiveness of risk management and the operation of related internal controls in their areas of responsibility, to supplement their regular reports to the Board.

Similarly, the Chief Executives of the Non-Departmental Public Bodies (NDPBs) and Executive Agencies, which are sponsored by the Department, are responsible for the maintenance and operation of the system of internal control in their individual organisations, and have signed a statement relating to those systems which are reproduced in the accounts of each body. The statements from directorates and NDPBs have been scrutinised and further information sought when necessary.

An Internal Audit service operating in accordance with Government Internal Audit Standards has examined the internal control systems and reported upon their effectiveness.

While the Accounting Officer transitional arrangements were in operation until December 2007, the existing BERR and DCSF internal control and risk management processes in the policy directorates continued, with high level risks reviewed by the DIUS Corporate Centre and considered by the Audit Committees of BERR and DCSF as appropriate. An Audit and Risk Committee has now been established for the new Department, comprising of one non-executive Board member (the chair) and two independent members who were appointed in March 2008. Following an induction programme for members in March, the Committee held its inaugural meeting in April 2008.

The Departmental Audit and Risk Committee has given consideration to the arrangements in place to support the comments contained within this Statement on Internal Control and has agreed that no matters have arisen that they are aware of to indicate that these comments are inappropriate.

### **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 a reasonable, rather than an absolute, assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

### **Capacity to handle risk**

The Board recognises the importance of leadership to create an environment where risk management is effective. A Risk Sub-Committee has been established for the Department, reporting to the Board and Audit and Risk Committee to provide a focus on key Departmental risks, and to review the appropriateness and effectiveness of risk management and control across the Department. The Risk Sub-Committee held its inaugural meeting in March 2008 and is chaired by the Finance & Performance Director and has an executive membership which includes all Directors General. Departmental Heads of Internal Audit and of Corporate Governance and Risk Management are in place.

Risk management is embedded in the Department's programme and project management training which is provided on a shared service basis by the DCSF and BERR. Guidance on the identification, assessment and active management of risk in the Department is available to all staff. BERR risk management guidance and DCSF risk management guidance are available on the DIUS intranet site and work has started to develop a consistent DIUS approach. The Head of Corporate Governance and Risk Management is in position to work with DIUS colleagues and the DCSF and BERR shared service providers to ensure that risk management is a key consideration in the Department's corporate governance, finance management, business planning and assurance, and performance management arrangements and improvement activities.

### **The risk and control framework**

During the Accounting Officer transitional arrangements, existing BERR and DCSF internal control and risk management processes have continued to operate while DIUS specific governance structures and processes are being established and developed. Key components of the Department's risk and control framework are now in place with the establishment of the Audit and Risk Committee and Risk Sub-Committee. In addition, a Fraud Sub-Committee has been established to provide a specific focus on the potential risks to the Department of fraud and financial irregularities, providing updates to both the Risk Sub-Committee and Board. The Fraud Sub-Committee held its inaugural meeting in March 2008 and is chaired

by the Finance & Performance Director and has an executive membership which includes representatives from all policy Groups and Corporate Services.

The Department's approach is to assign risks to those best placed to manage them. Therefore individual managers are responsible to the risk owners (Directors General and Corporate Services Directors) for managing risk as they have knowledge of the issues involved and can best manage risk and mitigate the potential impact. All managers are expected to systematically identify, assess and manage risk and document the underlying assumptions. The process of building a consistent DIUS risk management approach into the Department's business planning and reporting processes, and programme and project management framework, is ongoing. There is clear accountability and ownership of risk to ensure that risk is managed at the appropriate level and there are now Departmental frameworks in place to escalate risks to ensure that significant risks are reported to senior management and, if required, the Board.

Each Group in the Department provides an update to the Departmental High Level Risk Register and the key risks facing the Department and considerations of risk appetite have been discussed and agreed by the Risk Sub-Committee at its first meeting in March 2008. The Departmental High Level Risk Register will be reported to the Board and reviewed on a regular basis to consider new and emerging threats, ensuring that all are effectively managed. Every quarter I discuss and review key Departmental risks with the Secretary of State.

During the year the National Audit Office (NAO) produced a number of reports which reviewed the value for money of operations involving the Department and its delivery agents. The recommendations in reports by the NAO and the Public Accounts Committee have been carefully considered 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 is informed by the Directors General and Corporate Services Directors within the Department who have responsibility for the development and maintenance of the internal control framework; Internal Audit; and comments made by the external auditors in their management letter and other reports. I have been advised by the Board, Audit and Risk Committee, Risk Sub-Committee and the Head of Corporate Governance and Risk Management, who have an ongoing remit to continuously review, challenge and improve the system of internal control in place.

The Department's internal auditors undertake a work programme approved by me to review risk management, internal control and corporate governance. During the year audit work has been undertaken by DCSF Internal Audit in respect of Higher Education Group and Further Education and Skills Group, and by BERR Internal Audit in respect of Science and Innovation Group and the Government Office for Science. In addition, an Interim Audit Assurance Report was jointly signed by the Heads of Internal Audit from BERR and DCSF to provide an assessment of corporate governance, risk management and internal control arrangements, which operated in the Department from 28 June 2007 to 12 December 2007; to support Accounting Officer assurances in relation to the handover of Accounting Officer responsibilities; to provide an Internal Opinion on control standards exercised by the corporate centre and on the development of corporate governance arrangements and the internal control framework.

Since the appointment of a DIUS Head of Internal Audit in March 2008 we have met to discuss his report and consider progress in addressing major concerns. The Head of Internal Audit produces periodic reports on Internal Audit's findings, their assessment of risk management, corporate governance and control standards in the key corporate risks and delivery areas, and areas where action is required to address shortcomings. The Head of Internal Audit also prepares an annual report which includes his professional opinion on the effectiveness of the overall systems of internal control and risk management within the Department. This Annual Internal Audit Report has been signed by the DIUS Head of Internal Audit and provides an overall assurance statement and opinion for the entire financial year and summarises the findings and conclusions from audit work in 2007-08. Internal Audit has offered advice to Directorates within the Department to ensure issues identified through the audit work programme have been appropriately reflected in the preparation of the Directorates' annual statements.

For 2007-08 the newly established Audit and Risk Committee have supported the Accounting Officer after the year end by offering objective advice on issues concerning the control and governance of the Department. Terms of Reference are being finalised by Committee members, but its role and composition are in line with the Treasury's best practice guidance.

### **Internal Control**

We have made considerable progress in building the new Department, with the establishment of a new corporate centre to support our policy achievements, and the development of effective and appropriate operational and internal control frameworks. As would be expected for a newly established Department, this has been a challenging process and work is ongoing. I am satisfied that appropriate risk management, internal control and governance procedures have been in place, although there are currently some differences in approach between Groups where processes have been inherited from both BERR and DCSF.

Initial reliance was placed on financial and performance management processes, and risk management and internal control systems inherited by DIUS policy groups from the Departments in which they formerly operated, with shared corporate services support provided by both BERR and DCSF. The focus is now on developing and embedding a consistent, best practice DIUS approach.

Significant improvements have already been made. DIUS governance structures have been established, and work has begun to develop and embed a Departmental approach to risk management. Work is underway to enhance Departmental performance reporting and to develop a DIUS approach to managing our NDPB relationships. Agreement has been reached with DCSF and BERR on the principle of ongoing shared service provision for corporate services, though further work is needed both to specify the service required by DIUS and to determine how the service will be managed. A project team has been established to finalise arrangements and this will be progressed as a matter of priority in 2008-09.

The Learning and Skills Council (LSC) is one of the Department's key NDPBs and an area of concern has been identified with regard to the failure to properly embed corporate risk management across the organisation and respond to concerns raised by internal audit in the previous financial year. This has been disclosed in the LSC Statement on Internal Control for 2007-08 and is being addressed as a matter of priority. The LSC has undertaken a redesign of its approach to risk management and is working to achieve prompt and genuine progress in this area for review by the LSC's National Audit Committee.

The Student Loans Company (SLC) performs ongoing work to manage fraud and student support overpayments. Details of the steps being taken are disclosed within the SLC Statement of Internal Control for 2007-08.

During this accounting period the Design Council implemented a pay award that exceeded the level approved by Ministers for 2006-07. As a result of this second breach (the Design Council implemented a pay award for 2005-06 without Ministerial approval which led to a regularity qualification of the accounts by the National Audit Office) Ministers took punitive action by imposing a fine of £10,000 to fund an audit. The audit will provide the Department with assurance on the appropriate implementation of the 2007-08 remit. The Design Council has already introduced process improvements and I am hopeful that there will not be a recurrence of this issue.

As Accounting Officer, whilst acknowledging the above issues, I am satisfied that the Department has met or is working actively towards HM Treasury requirements for risk management, corporate governance and internal control and that processes for ensuring regularity of expenditure are generally sound.

**Ian Watmore**  
Accounting Officer

17 July 2008

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

I certify that I have audited the financial statements of the Department for Innovation, Universities and Skills for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Scope and Management Commentary included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

### **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited.

It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Scope and Management Commentary included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

In my opinion, 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.

## Report

I have no observations to make on these financial statements.

T J Burr  
**Comptroller and Auditor General**

July 2008

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

## Statement of Parliamentary Supply

## Summary of Resource Outturn 2007-08

		Estimate			Outturn			2007-08 £000	2006-07 £000
Request for Resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/(excess)	Net Total
Request for Resources 1	2	22,743,496	(8,207,909)	14,535,587	22,469,358	(8,160,002)	14,309,356	226,231	12,499,785
Request for Resources 2	2	3,421,372	(8,306)	3,413,066	3,175,501	(6,537)	3,168,964	244,102	3,117,924
Total resources	3	<b>26,164,868</b>	<b>(8,216,215)</b>	<b>17,948,653</b>	<b>25,644,859</b>	<b>(8,166,539)</b>	<b>17,478,320</b>	<b>470,333</b>	<b>15,617,709</b>
Non-operating cost A in A	7			<b>(697,366)</b>			<b>(637,916)</b>	<b>(59,450)</b>	<b>552,841</b>

## Net cash requirement 2007-08

	Note	Estimate	Outturn	2007-08 £000 Net Total outturn compared with Estimate: saving/(excess)	2006-07 £000 Outturn
Net cash requirement	4	19,436,228	19,398,573	37,655	17,533,931

## 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)

	Note	Forecast 2007-08 £000		Outturn 2007-08 £000	
		Income	Receipts	Income	Receipts
Total	5	208,805	<i>192,955</i>	726,627	<i>721,402</i>

Descriptions of the requests for resources and explanations of variances between Estimate and outturn are given in Note 2 and in the Management Commentary.

The notes on pages 46 to 85 form part of these accounts

## Operating Cost Statement

for the year ended 31 March 2008

	Note	Core Department			2007-08			2006-07	
		Staff Costs	Other Costs	Income	£000			£000	
					Consolidated	Core Department	Consolidated		
<b>Administration costs:</b>									
Staff costs	9	39,790			39,790		40,045	40,045	
Other administration costs	10		29,407			29,407	22,721	21,000	
Operating income	12			(239)		(239)	12	(1,012)	
<b>Programme costs:</b>									
<b>Request for resources 1:</b>									
Staff costs	9	276			2,862		684	2,949	
Programme costs	11		22,408,761			22,406,940	19,881,550	19,881,570	
Income	12			(8,161,776)		(8,162,888)	(7,440,046)	(7,440,046)	
<b>Request for resources 2:</b>									
Staff costs	9	34			34		67	67	
Programme costs	11		3,165,826			3,165,826	3,116,379	3,116,379	
Income	12			(99,367)		(99,367)	(6,425)	(6,425)	
<b>Totals</b>		<b>40,100</b>	<b>25,603,994</b>	<b>(8,261,382)</b>	<b>42,686</b>	<b>25,602,173</b>	<b>(8,262,494)</b>	<b>15,614,987</b>	<b>15,614,527</b>
<b>Net operating cost</b>	3, 13			<b>17,382,712</b>		<b>17,382,365</b>	<b>15,614,987</b>	<b>15,614,527</b>	

All income and expenditure reported in the Operating Cost Statement is derived from continuing operations.

## Statement of Recognised Gains and Losses

for the year ended 31 March 2008

	Note	2007-08		2006-07	
		Core Department	Consolidated	Core Department	Consolidated
			£000		£000
Net gain/(loss) on revaluation of tangible fixed assets	23	69,222	69,285	8,558	8,569
<b>Recognised gains and losses for the financial year</b>		<b>69,222</b>	<b>69,285</b>	<b>8,558</b>	<b>8,569</b>

The notes on pages 46 to 85 form part of these accounts

## Balance Sheet

as at 31 March 2008

		2008		2007	
		£000		£000	
	Note	Core Department	Consolidated	Core Department	Consolidated
<b>Fixed assets:</b>					
Tangible assets	14	220,559	221,912	138,765	139,987
Intangible assets	15	10	77	-	61
Investments	16	20,797,971	20,797,971	17,128,451	17,128,451
		21,018,540	21,019,960	17,267,216	17,268,499
Debtors falling due after more than one year	18	-	-	-	-
<b>Current assets:</b>					
Stocks	17	1,445	1,505	2,025	2,078
Debtors	18	1,322,645	1,324,913	858,413	858,572
Cash at bank and in hand	19	289,119	290,813	34,515	36,040
		1,613,209	1,617,231	894,953	896,690
<b>Creditors (amounts falling due within one year):</b>					
Creditors	20	(564,990)	(567,201)	(221,239)	(221,645)
<b>Net current assets</b>		<b>1,048,219</b>	<b>1,050,030</b>	<b>673,714</b>	<b>675,045</b>
<b>Total assets less current liabilities</b>		<b>22,066,759</b>	<b>22,069,990</b>	<b>17,940,930</b>	<b>17,943,544</b>
<b>Creditors (amounts falling due after more than one year):</b>					
Creditors	20	-	(28)	-	-
Provisions for liabilities and charges	21	(5,018,298)	(5,018,318)	(3,492,700)	(3,492,700)
		<b>17,048,461</b>	<b>17,051,644</b>	<b>14,448,230</b>	<b>14,450,844</b>
<b>Taxpayers' equity:</b>					
General Fund	22	16,965,311	16,968,342	14,431,279	14,433,804
Revaluation reserve	23	83,150	83,302	16,951	17,040
		<b>17,048,461</b>	<b>17,051,644</b>	<b>14,448,230</b>	<b>14,450,844</b>

Ian Watmore (Accounting Officer)

17 July 2008

The notes on pages 46 to 85 form part of these accounts

### Cash Flow Statement

for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Net cash outflow from operating activities	24a	(15,983,274)	(15,073,778)
Cash inflow of third party funds payable to the consolidated fund		433,000	-
Capital expenditure and financial investment	24b	(3,122,892)	(2,308,937)
Payments of amounts due to the Consolidated Fund		(508,289)	(128,330)
Financing	24d	19,436,228	17,533,931
<b>Increase/(decrease) in cash in the period</b>	24e	<b>254,773</b>	<b>22,886</b>

The notes on pages 46 to 85 form part of these accounts

## Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2008

**AIM:** Britain can only succeed in a rapidly changing world if we develop the skills of our people to the fullest possible extent, carry out world-class research and scholarship, and apply both knowledge and skills to create an innovative and competitive economy. The DIUS mission is to work with our partners to meet these challenges.

	2007-08 £000			2006-07 £000		
	Gross	Income	Net	Gross	Income	Net
Objective 1	348,672	(127,059)	221,613	289,219	(44,811)	244,408
Objective 2	9,062,229	(3,358,943)	5,703,286	7,915,042	(3,024,717)	4,890,325
Objective 3	9,062,232	(3,358,943)	5,703,289	7,915,042	(3,024,717)	4,890,325
Objective 4	4,760,190	(7,649)	4,752,541	4,713,771	(6,419)	4,707,352
Objective 5	2,399,776	(1,409,900)	989,876	2,222,641	(1,346,812)	875,829
Objective 6	11,760	-	11,760	6,295	(7)	6,288
<b>Net operating cost</b>	<b>25,644,859</b>	<b>(8,262,494)</b>	<b>17,382,365</b>	<b>23,062,010</b>	<b>(7,447,483)</b>	<b>15,614,527</b>

The Department's objectives are as follows:

- Objective 1 - Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life.
- Objective 2 - Improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the knowledge economy.
- Objective 3 - Build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills.
- Objective 4 - Pursue global excellence in research and knowledge, promote the benefits of science and society, and deliver science, technology, engineering and mathematics skills in line with employer demand.
- Objective 5 - Strengthen the capacity, quality and reputation of the further and higher education systems and institutions to support national economic and social needs.
- Objective 6 - Encourage better use of science in Government, foster public service innovation, and support other government objectives which depend on DIUS expertise and our remit

See Note 25 for basis of objectives, and further analysis of expenditure and capital employed by objective.

The notes on pages 46 to 85 form part of these accounts

## Notes to the Departmental Resource Accounts

### 1 Statement of accounting policies

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

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

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

#### 1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to include the revaluation of certain fixed assets as described in 1.4

#### 1.2 Transfer of functions

As part of the machinery of government changes announced in June 2007, the responsibility for science and innovation function from the former Department of Trade and Industry, and the higher education (both teaching and research), further education and skills from the former Department for Education and Skills were transferred over to the Department for Innovation, Universities and Skills, with effect from 1 April 2007.

Machinery of government changes which involve the merger or the transfer of functions of responsibility from two parts of the public service sector, have been accounted for using merger accounting in accordance with Financial Reporting Standard (FRS) 6. This required the restatement of the opening Balance Sheet and prior year's Operating Cost Statement, Cash Flow Statement, Statement of Operating Costs by Departmental Aim and Objectives and associated notes to the Accounts. The impact on the Operating Cost Statement and Balance Sheet is shown in note 35.

#### 1.3 Basis of consolidation

These accounts comprise a consolidation of the core Department and those entities which fall within the departmental boundary as defined in the *FReM* (chapter 2.4). Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the departmental boundary is shown in Note 33

## 1.4 Tangible fixed assets

**1.4.1** The Department's freehold land and building are restated at current cost and professionally revalued in accordance with the requirements of the Royal Institute of Chartered Surveyors every 5 years at existing use value. Where appropriate, indices issued by the Office of National Statistics have been applied in intervening years.

Other tangible assets have been stated at current cost using indices provided by the Office of National Statistics.

Leasehold improvements have been stated at current cost.

**1.4.2** The Department's capitalisation threshold for tangible fixed assets, including operational heritage assets and IT hardware is £2,500; except for furniture assets, where expenditure in one financial year is pooled and capitalised. Assets under construction are recognised and treated as capital expenditure, but not depreciated until the asset is brought into use. The asset value on capitalisation is measured at cost plus any costs, such as installation, directly attributable to bringing the asset into working condition.

For the consolidated body, the capitalisation thresholds range from £500 for IT equipment, to £1000 for other tangible assets.

## 1.5 Depreciation

Tangible fixed assets are depreciated on a straight line basis to their estimated residual value, over their estimated useful lives.

Freehold land and assets under construction are not depreciated.

Assets are normally depreciated over the following periods:

Freehold Buildings	50 years or estimated useful life if shorter
Historical leasehold	Residual term of the land and buildings lease
Leasehold improvements	Residual term of the lease
Transport equipment	2 - 10 years
Plant and Machinery	3 - 10 years
Information Technology	3 - 10 years
Scientific equipment	10 - 50 years
Fixtures & Fittings	7 -10 years

The Department has a number of non-operational heritage assets held for historical and cultural reasons only. These are recorded in the Register of Assets at nil book value, in accordance with guidance from HM Treasury, which excludes museum collections, and other national archives existing at 31 March 2000 from the requirement of valuation. The Department's non-operational heritage assets are located at the National Physical Laboratory (NPL) at Teddington, these are made up of the National Physical Laboratory museum and archives, and some UK primary standard weights and measures.

The Department also has operational heritage assets, which are listed buildings used for operational purposes. These are valued at existing use value and depreciated in the same way as other buildings.

### **1.6 Intangible fixed assets**

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,500 or more is incurred, or when expenditure is of a capital nature. The value of the software licences are restated to current cost each year using appropriate indices published by the Office for National Statistics. The software licences are amortised on a straight line basis over the shorter of the licence period or its useful economic life. The useful economic life is usually between 2 to 5 years

### **1.7 Investments**

The Department holds investments in the form of loans to students, public dividend capital and financial loans in its trading fund.

Student loans are stated at their revalued cost, which is calculated each year using the Retail Price Index.

The value of public dividend capital and loans are recorded at historic cost, in the balance sheet. Investments which are due to be repaid within one year are shown under Debtors, in Note 18.

### **1.8 Research and development**

Expenditure on research and development is reported as programme expenditure in the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and developments are depreciated over the life of the associated research project or according to the asset category if the asset is to be used for subsequent production work.

### **1.9 Operating income**

Operating income is income which relates directly to the operating activities of the Department and its agency. It includes both income appropriated-in-aid as authorised in the Supply Estimate, (such as general administration receipts and income from other departments for payment to NDPBs), and income to the Consolidated Fund (known as CFERs) that HM Treasury has agreed should be treated as operating income. All income is stated net of VAT.

The Department is required to identify those CFERs that are negative public expenditure (amounts used to reduce the amount of expenditure the Department would otherwise have to spend) and those revenue CFERs that relate to the recovery of costs recorded in the Operating Cost Statement, or to returns on investments. These types of CFER are credited to the Operating Cost Statement as income to the Department. The remaining CFERs are not included in the Department's Operating Cost Statement and are accounted for through the balance sheet account of cash and creditors.

### **1.10 Administration and programme expenditure and income**

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or programme follows the definition of administration costs set out by HM Treasury in its '*Consolidated Budgeting Guidance*'.

Administration costs reflect the costs of running the Department as defined under the administration cost control regime, together with associated operating income. Income is analysed in the notes between that which, under the 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.

### **1.11 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% on the average carrying amount of all assets less liabilities, except for;

- Cash balances with the Office of the Paymaster General bank balances where the charge is nil.
- Student loan investment, student loan interest subsidy provisions and student loan write off provisions where the charge is 2.2% in line with the HM Treasury long term provisions.
- The Department's investment in the trading funds where the charge is 3.5% of the trading fund's underlying net assets.
- Amounts due from, or due to be surrendered to, the Consolidated Fund, where the credit will be at a nil rate.

### **1.12 Foreign exchange**

Transactions that are denominated in a foreign currency 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 a period is used.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rules at that date. These translation differences are dealt with in the Operating Cost Statement.

### **1.13 Pensions**

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

### **1.14 Leases**

Rentals due under operating leases are charged to the Operating Cost Statement over the term of the lease, or on the basis of actual rentals payable where this fairly reflects the usage.

Finance leases are capitalised and depreciated on a straight line basis over the estimated economic useful life.

Depreciation is charged to the Operating Cost Statement.

### **1.15 Early departure costs**

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, and for compensation payments payable to employees who take early severance. The Department provides for the costs when the early departure programme has been announced and is binding on the Department. In earlier years the Department could, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The balance of pre-funded costs is included in the debtor balance as a prepayment.

### **1.16 Grants payable**

Grants payable are recognised in the period in which the grant recipient carries out the activity that creates an entitlement to grant. Recognition of entitlement to grant varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Operating Cost Statement on the basis of estimates of claims not received and are included in accruals in the balance sheet.

### **1.17 Provisions for liabilities and charges**

In accordance with FRS12, the Department makes provision for liabilities and charges where a legal or constructive liability (i.e. a present obligation arising from a past event) exists and the transfer of economic benefits is probable. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the Balance Sheet date and are discounted to a present value where the effect is material.

The Department has created provisions for the following liabilities:

#### *Student loan related provisions*

The student loan related provisions are based on the Department's estimate of the amount and timing of the future liabilities to the government of subsidising interest on loans and potential loan write offs. The Department's policy for accounting for the interest subsidy provision follows the Financial Reporting Advisory Board instructions.

The Department applies an estimation technique to arrive at their annual estimate for the provisions. The estimates underpinning the provisions are based on a model which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour and estimate the likely repayments of student loans. Given the long term nature of both provisions, the time value of money is significant, and the provisions are discounted using the current HM Treasury discount rate of 2.2% in real terms. The estimates have been revised during 2007-08 and the provisions updated accordingly. There are significant uncertainties in assessing the actual likely costs and the provision will be affected by the assumptions used which are formally reviewed by the Department each year, but the amounts provided reflect the Department's current estimate. See Note 21 for further details.

- *Early departure costs*

The early departure costs provision is based on the future costs of those staff who have taken early release from the date they leave the Department up to the date they retire and the pension costs are met from the PCSPS. The cash flows have been discounted using the HM Treasury discount rate of 2.2% to reflect the current value of the liabilities

*Other*

The provision for demolition, decontamination and disposal of radiological substance are based on estimated future cost that the Department is obliged to incur in meeting regulatory standards and has been discounted to its present value using the HM Treasury discount rate of 2.2% to reflect the current value of the liabilities.

### **1.18 Contingent liabilities**

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

Contingent liabilities reported in the accounts comprise of:

- Items over £250,000 (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; and
- All items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute, or where material in the context of the Resource Accounts), which are required by the FReM to be noted in the Resource Accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS12 are stated at the amounts reported to Parliament.

In accordance with the *FReM*, the Department does not disclose any contingent liabilities of its non departmental public bodies that arise in the normal course of business.

### **1.19 Taxation**

The Department is exempt from income and corporation tax by way of its crown exemption. Most of the activities of the Department are outside the scope of Value Added Tax (VAT) and, in general, output tax does not apply and input tax on purchases is not recoverable. VAT is accounted for in the accounts, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Operating Cost Statement, and included under the heading relevant to the type of expenditure;
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within debtors or creditors within the consolidated balance sheet.

### **1.20 Stocks**

Stocks of finished goods and goods for resale are valued at cost or, where materially different, at current replacement cost. Stocks which have no expectation of sale or consumption are written off in the year, in the Operating Cost Statement.

### **1.21 Third-party assets**

At balance sheet date, DIUS holds a sum of cash balances belonging to a third party. These amounts are not recognised in the accounts since the Department has no direct beneficial interest. These balances relate to The Scottish Executive Environment and Rural Affairs Department pension scheme transferring over to the research council's pension scheme.

### **1.22 Private Finance Initiative (PFI) Transactions**

DIUS do not have any PFI contracts.

## 2. Analysis of net resource outturn by Estimate Line

						2007-08 £000		2006-07 £000	
						Outturn	Estimate		
								Net total outturn compared with Estimate	Prior year outturn
Admin	Other current	Grants	Gross resource expenditure	A in A	Net total	Net total			
<b>Request for resources – 1: To help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; achieving excellence in level of skills; and supporting innovation and standards</b>									
<b>Spending in Departmental Expenditure Limits</b>									
<i>Central Government spending</i>									
A - Activities to support all functions	59,556	7,074	-	66,630	(1,353)	65,277	73,831	8,554	56,771
B - Higher Education	-	29,319	66,181	95,500	(7,769)	87,731	160,655	72,924	82,041
C - Higher Education Support for Students	-	-	2,017,586	2,017,586	-	2,017,586	1,889,152	(128,434)	1,177,321
D - Further Education, Skills and International Programmes	-	60,684	149,582	210,266	(6,067)	204,199	187,378	(16,821)	225,831
E - Further Education Receipts from DCSF	-	-	-	-	(7,052,258)	(7,052,258)	(7,165,188)	(112,930)	(6,976,119)
F - Science, Innovation and Knowledge Transfer	-	144,580	23,214	167,794	(31,103)	136,691	149,277	12,586	86,529
<i>Support for local authorities</i>									
G - Higher Education Fees and Awards through LEAs	-	-	340	340	-	340	1,000	660	3,077
H - Further Education Receipts from DCSF to support 6 <sup>th</sup> Forms	-	-	-	-	-	-	-	-	-
I - Science and Innovation Knowledge Transfer	-	-	4,191	4,191	-	4,191	4,191	-	-
<b>Spending in Annually Managed Expenditure</b>									
<i>Central Government spending</i>									
J - Loans to Students	-	-	765,246	765,246	(786,398)	(21,152)	-	21,152	(11,218)
<b>Non-Budget</b>									
K - Higher Education Funding Council for England	-	-	6,910,003	6,910,003	-	6,910,003	6,906,411	(3,592)	6,906,832
L - Office for Fair Access	-	-	413	413	-	413	450	37	440
M - Student Loan Company	-	-	48,426	48,426	-	48,426	56,080	7,654	52,263
N - Investors in People UK	-	-	5,773	5,773	-	5,773	5,703	(70)	5,523
O - Learning and Skills Council	-	-	11,167,929	11,167,929	-	11,167,929	11,452,621	284,692	10,328,177
P - Sector Skills Development Agency	-	-	83,875	83,875	-	83,875	84,285	410	72,739
Q - Quality Improvement Agency	-	-	109,764	109,764	-	109,764	113,250	3,486	82,773
R - Design Council	-	-	6,069	6,069	-	6,069	6,892	823	6,035
S - Technology Strategy Board	-	-	150,000	150,000	-	150,000	205,100	55,100	141,441
T - Support for Students	-	-	659,553	659,553	(275,054)	384,499	384,499	-	-
<b>Spending in Annually Managed Expenditure</b>									
<i>Central Government spending</i>									
U Activities to support all functions	-	-	-	-	-	-	20,000	20,000	-
Adult Learning Inspectorate	-	-	-	-	-	-	-	-	21,728
<b>Total</b>	<b>59,556</b>	<b>241,657</b>	<b>22,168,145</b>	<b>22,469,358</b>	<b>(8,160,002)</b>	<b>14,309,356</b>	<b>14,535,587</b>	<b>226,231</b>	<b>12,262,184</b>

## Request for resources 2 – : Increasing scientific excellence in the UK and maximising its contribution to society

<b>Spending in Departmental Expenditure Limits</b>									
<i>Central Government spending</i>									
A - The Royal Society	-	-	41,072	41,072	-	41,072	41,072	-	36,359
B - Royal Academy of Engineering	-	-	9,752	9,752	-	9,752	9,752	-	7,885
C - British Academy	-	-	22,585	22,585	-	22,585	22,585	-	16,885
D - RB Initiatives	-	-	5,024	5,024	-	5,024	11,105	6,081	7,738
E - Science and Society	-	-	11,071	11,071	-	11,071	11,135	64	9,329
F - Knowledge Transfer	-	-	11,904	11,904	-	11,904	11,904	-	10,963
G - Science Research investment Fund	-	-	83,438	83,438	-	83,438	85,348	1,910	105,300
H - Research Base Administration	4,056	-	-	4,056	-	4,056	3,500	(556)	3,382
I - GO-Science Group Administration Costs	5,585	-	-	5,585	-	5,585	6,625	1,040	4,521
J - Biotechnology and Biological Sciences Research Council	-	-	-	-	(6,537)	(6,537)	(8,306)	(1,769)	(6,425)
<b>Spending in Annually Managed Expenditure</b>									
<i>Central Government spending</i>									
K - Research Councils' Pension Scheme	-	27,400	-	27,400	-	27,400	27,600	200	17,202
<b>Non-Budget</b>									
L - Arts and Humanities Research Council	-	-	104,343	104,343	-	104,343	106,343	2,000	88,256
M - Biotechnology and Biological Sciences Research Council	-	-	393,530	393,530	-	393,530	392,791	(739)	376,964
N - Economic and Social Research Council	-	-	135,018	135,018	-	135,018	135,018	-	140,508
O - Engineering and Physical Sciences Research Council	-	-	739,499	739,499	-	739,499	739,499	-	637,134
P - Medical Research Council	-	-	304,915	304,915	-	304,915	526,516	221,601	503,575
Q - Natural Environment Research Council	-	-	353,555	353,555	-	353,555	354,541	986	340,630
R - Science and Technology Facilities Council	-	-	558,888	558,888	-	558,888	568,866	9,978	527,601
S - Fees Payable under the Animals (Scientific Procedures) Act 1986	-	236	-	236	-	236	202	(34)	117
T - Higher Education Funding Council for England	-	-	363,630	363,630	-	363,630	366,970	3,340	527,601
<b>Total</b>	<b>9,641</b>	<b>27,636</b>	<b>3,138,224</b>	<b>3,175,501</b>	<b>(6,537)</b>	<b>3,168,964</b>	<b>3,413,066</b>	<b>244,102</b>	<b>3,355,525</b>
<b>Resource Outturn</b>	<b>69,197</b>	<b>269,293</b>	<b>25,306,369</b>	<b>25,644,859</b>	<b>(8,166,539)</b>	<b>17,478,320</b>	<b>17,948,653</b>	<b>470,333</b>	<b>15,617,709</b>

**Note 2 Analysis of net resource outturn by Estimate Line (continued)****Explanation of variances**

Detailed explanations of the variances are given in the Management Commentary.

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

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

			2007-08 £000	2006-07 £000
	Note	Outturn	Supply Estimate	Outturn compared with Estimate
Net Resource Outturn	2	17,478,320	17,948,653	470,333
Non-supply income (CFERs)	5	(95,955)	(1,955)	94,000
Net operating cost		<b>17,382,365</b>	<b>17,946,698</b>	<b>564,333</b>
				<b>15,614,527</b>

#### 3(b) Outturn against final Administration Budget

		2007-08 £000	2006-07 £000
	Budget	Outturn	Outturn
Gross Administration Budget	76,089	69,197	61,045
Income allowable against the Administration Budget	(159)	(239)	(1,012)
Net outturn against final Administration Budget	<b>75,930</b>	<b>68,958</b>	<b>60,033</b>

### 4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource Outturn	2	17,948,653	17,478,320	470,333
Capital				
Acquisition of fixed assets	14, 15	10,098	17,024	(6,926)
Investments				
Loans issued in year	16	4,954,050	3,904,970	1,049,080
Repurchase of sold loans	16	-	(684)	684
Non-operating A in A				
Repayment of loans	7	(697,366)	(637,916)	(59,450)
Accruals adjustments				
Non-cash items	24a	(2,827,541)	(1,548,686)	(1,278,855)
Changes in working capital other than cash		-	(63,019)	63,019
Use of provisions	21	48,334	256,642	(208,308)
Write-off provisions	21	-	(8,078)	8,078
<b>Net cash requirement</b>		<b>19,436,228</b>	<b>19,398,573</b>	<b>37,655</b>

The Department has stayed within £38 million (0.2%) of its cash requirement limit. This is mainly due to the £470 million underspend on the net resources limit. Further information on the variances can be found in the financial performance section of the Management Commentary.

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

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

	Note	Forecast 2007-08		Outturn 2007-08	
		Income £000	Receipts £000	Income £000	Receipts £000
Other operating income and receipts not classified as A in A	6	1,955	<i>1,955</i>	95,955	<i>95,808</i>
		<u>1,955</u>	<u><i>1,955</i></u>	<u>95,955</u>	<u><i>95,808</i></u>
Other non-operating income and receipts not classified as A in A		206,850	<i>191,000</i>	197,672	<i>192,594</i>
Other amounts collectable on behalf of the Consolidated Fund		-	-	433,000	<i>433,000</i>
Total income payable to the Consolidated Fund		<u>208,805</u>	<u><i>192,955</i></u>	<u>726,627</u>	<u><i>721,402</i></u>

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

	Note	2007-08 £000	2006-07 £000
Operating income	12	8,262,494	7,447,483
Income authorised to be appropriated-in-aid	2	<u>(8,166,539)</u>	<u>(7,444,301)</u>
Operating Income payable to the Consolidated Fund		<u>95,955</u>	<u>3,182</u>

**7. Non-operating income – classified as A in A**

	2007-08 £000	2006-07 £000
Principal repayments of student loans	637,750	552,675
Principal repayments of UKIPO loan	166	166
Non-operating income – classified as A in A	<u>637,916</u>	<u>552,841</u>

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

	2007-08 Income £000	2007-08 Receipts £000
Student loans interest repayments	190,415	192,594
	<u>190,415</u>	<u>192,594</u>

The Department received £190 million during the year for repayments of interest on student loans which, under HM Treasury rules, are not retained by the Department. As a result they are not recognised as income in the Operating Cost Statement and are paid to the Consolidated Fund.

## 9. Staff numbers and related costs

### Staff costs consist of:

					2007-08 £000	2006-07 £000
	Total	Permanently employed staff	Other <sup>1</sup>	Ministers	Special advisers	Total
Wages and salaries	31,307	29,548	1,507	201	51	30,561
Social security costs	2,454	2,447	-	2	5	2,774
Other pension costs	6,029	6,014	-	-	15	6,710
<b>Sub Total</b>	<b>39,790</b>	<b>38,009</b>	<b>1,507</b>	<b>203</b>	<b>71</b>	<b>40,045</b>
Charged to admin staff costs	39,790	38,009	1,507	203	71	40,045
Charged to programme costs	2,896	2,896	-	-	-	3,016
	<b>42,686</b>	<b>40,905</b>	<b>1,507</b>	<b>203</b>	<b>71</b>	<b>43,061</b>
Less recoveries in respect of outward secondments	(125)	(125)	-	-	-	(197)
<b>Total Net Costs *</b>	<b>42,561</b>	<b>40,780</b>	<b>1,507</b>	<b>203</b>	<b>71</b>	<b>42,864</b>
*Of which						
Core Department	<b>39,790</b>	<b>38,009</b>	<b>1,507</b>	<b>203</b>	<b>71</b>	<b>40,796</b>

<sup>1</sup> The fees paid for agency staff is a flat hourly fee, including social security, holiday pay, pension costs etc. For the purposes of this note the total amount is disclosed as wages and salaries.

All early departure costs are now included within other administration (note 10) rather than staff costs.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Department for Innovation, Universities and Skills is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Associates) valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007-08, employers' contributions of £6,342,046 (Core Department of £6,029K and £313K relating to the National Weights and Measures Laboratory) were payable to the PCSPS (2006-07: £6,697,712) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006-07 were between 16.2% and 24.6%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £5,167.01 (2006-07: £11,188.07) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2006-07: 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £813.87, (2006-07: £1,040.31), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

One person (2006-07: one person) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £3,174.29 (2006-07: £1,774.69).

**Average number of persons employed\***

The average number of whole-time equivalent persons employed during the year is shown in the table below.

Objective	Total	Permanent staff	Others <sup>1</sup>	Ministers	2007-08	2006-07
					Number Special advisers	Number Total
1	162.0	145.9	14.6	1.2	0.3	167.5
2	197.2	196.2	-	0.7	0.3	203.8
3	197.2	196.2	-	0.7	0.3	203.8
4	42.2	39.7	-	1.9	0.6	43.6
5	78.2	77.2	-	0.7	0.3	80.8
6	98.7	98.7	-	-	-	102.1
Number of staff charged to admin costs	775.5	753.9	14.6	5.2	1.8	801.6
Number of staff charged to Programme expenditure						
1	-	-	-	-	-	-
2	-	-	-	-	-	-
3	-	-	-	-	-	-
4	59.6	59.6	-	-	-	61.6
5	-	-	-	-	-	-
6	-	-	-	-	-	-
	59.6	59.6	-	-	-	61.6
<b>TOTAL*</b>	<b>835.1</b>	<b>813.5</b>	<b>14.6</b>	<b>5.2</b>	<b>1.8</b>	<b>863.2</b>
*Of which						
Core Department	786.1	764.5	14.6	5.2	2	817.2

<sup>1</sup> The fee paid for agency staff is a flat hourly fee, including social security, holiday pay, pension costs etc. For the purposes of this note the total amount is disclosed as wages and salaries.

The Department's objectives are as follows:

- Objective 1 - Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life.
- Objective 2 - Improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the knowledge economy.
- Objective 3 - Build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills.
- Objective 4 - Pursue global excellence in research and knowledge, promote the benefits of science and society, and deliver science, technology, engineering and mathematics skills in line with employer demand.
- Objective 5 - Strengthen the capacity, quality and reputation of the further and higher education systems and institutions to support national economic and social needs.
- Objective 6 - Encourage better use of science in Government, foster public service innovation, and support other government objectives which depend on DIUS expertise and our remit

\*The apportionment of staff to objectives is to reflect the Machinery of Government reporting requirement that the Resource Accounts are presented as though the Department had been in operation from 1 April 2007. The prior year staff numbers (previously included within the DfES and DTI accounts) relevant to current DIUS functions are allocated on the same basis for comparison purposes.

**10 Other administration costs**

		2007-08 £000		2006-07 £000
	Note	Core Department Consolidated	Core Department Consolidated	Core Department Consolidated
Rentals under operating leases:				
Hire of plant and machinery		435	28	59
Other operating leases		1,327	132	341
		1,762	160	400
Non-cash items:				
Depreciation and amortisation of fixed assets				
Other tangible fixed assets		360	2	124
Intangible fixed assets		2	-	17
Permanent diminution in fixed asset values		(135)	126	135
Loss on disposal of fixed assets		-	-	6
Other Services		-	-	96
Cost of capital charge:				
Other items		(269)	-	47
Auditor's remuneration		225	-	-
Early departure provisions:				
Provided for in year	21	462	-	-
		645	128	425
Professional fees		1,875	1,130	1,251
Travel and subsistence		2,246	2,454	2,535
Consultancy		2,515	632	636
Rates and service charges		102	1	69
Computers and telecoms costs		5,505	944	1,110
Utilities		-	-	34
Advertising and publicity		308	593	629
Other office services		1,356	1,882	2,100
Other expenditure ( <i>including shared services cost</i> )		13,093	14,797	11,811
<b>Total</b>		<b>29,407</b>	<b>22,721</b>	<b>21,000</b>

The auditor's remuneration represents the cost of the audit of the financial statements carried out by the Comptroller and Auditor General. The auditor received no remuneration for non-audit work. Due to Machinery of Government changes, there was no audit fee in the previous year for DIUS.

**11. Programme costs**

		2007-08		2006-07	
		£000		£000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Current grants and other current expenditure					
		22,985,155	22,985,590	21,531,670	21,533,935
Research and development costs		1,994	1,994	1,246	1,246
Realised exchange rate gains and losses		287	287	-	-
Losses and compensation		179	179	-	-
Non-cash items					
Cost of capital on programmes		345,306	345,357	285,679	285,679
Auditor's remuneration		-	21	-	20
Depreciation and amortisation of fixed assets					
Other tangible assets		4,261	4,386	2,256	2,256
Intangible fixed assets		-	17	-	-
Permanent diminution in fixed assets		(270)	(261)	-	-
Other non cash items		-	87	-	-
Provisions :	21				
Provided in year		1,632,495	1,632,515	710,003	710,003
Release of provision		-	-	(109,071)	(109,071)
Unwinding of discount		149,283	149,283	74,786	74,786
Student loans domicile adjustment	16	(48)	(48)	22	22
Student loan interest subsidy inflation adjustment					
		456,255	456,255	502,089	502,089
Total programme costs		<b>25,574,897</b>	<b>25,575,662</b>	<b>22,998,680</b>	<b>23,000,965</b>

**12. Income**

			2007-08		2006-07	
			£000		£000	
	RfR 1	RfR 2	Total	RfR 1	RfR 2	Total
Administration income:						
Profit on disposal of assets	5	-	5	-	-	-
Other miscellaneous	(244)	-	(244)	(1,012)	-	(1,012)
	(239)	-	(239)	(1,012)	-	(1,012)
Programme income:						
Income from DCSF for payment to HEFCE	(2,936)	-	(2,936)	(279,119)	-	(279,119)
Income from DCSF for contribution to LSC Grant in Aid	(7,052,258)	-	(7,052,258)	(6,697,000)	-	(6,697,000)
Fees and charges	(1,112)	-	(1,112)	-	-	-
Student loans capitalised interest	(1,039,571)	-	(1,039,571)	(396,224)	-	(396,224)
Other income	(63,886)	(6,537)	(70,423)	(64,521)	(6,425)	(70,946)
CFER miscellaneous income	(3,125)	(92,830)	(95,955)	(3,182)	-	(3,182)
	(8,162,888)	(99,367)	(8,262,255)	(7,440,046)	(6,425)	(7,446,471)
Total	(8,163,127)	(99,367)	(8,262,494)	(7,441,058)	(6,425)	(7,447,483)

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

	2007-08	2006-07
	£000	£000
	Estimate	Outturn
<b>Spending body:</b>		
<b>Non-Departmental Public Bodies (NDPBs):</b>		
Design Council	6,892	6,069
Higher Education Funding Council for England (HEFCE)	7,273,381	7,273,634
Investors in People UK Ltd (IiP UK)	5,703	5,773
Learning and Skills Council (LSC)	11,452,621	11,167,929
Office for Fair Access (OFFA)	450	413
Quality Improvement Agency (QIA)	113,250	109,764
Student Loans Company Ltd (SLC)	56,080	48,426
Sector Skills Development Agency (SSDA)	84,285	83,875
Technology Strategy Board	205,100	150,000
Research Councils:		
Arts and Humanities Research Council	106,343	104,343
Biotechnology and Biological Sciences Research Council	392,791	393,530
Economic and Social Research Council	135,018	135,018
Engineering and Physical Sciences Research Council	739,499	739,499
Medical Research Council	526,516	304,915
Natural Environment Research Council	354,541	353,555
Science and Technology Facilities Council	568,866	558,887
Fees Payable under the Scientific Procedures Act 1986	202	236
Local Authorities:		
Higher education fees and awards through LEAs	1,000	340
Science and Innovation knowledge transfer	4,191	4,191
Other DIUS		
- National Weights and Measures Laboratory	-	(347)
- Further education receipts from DCSF	(7,165,188)	(7,052,258)
- Other spending	3,087,112	3,090,528
- Non- supply income	-	(95,955)
<b>Net operating cost</b>	<b>17,948,653</b>	<b>17,382,365</b>
	<b>15,614,527</b>	

**14. Tangible fixed assets**

	Freehold Land & Buildings £000	Leasehold Improvements £000	Leasehold Land £000	Plant & Machinery £000	Information Technology £000	Scientific Equipment £000	Transport Equipment £000	Furniture & Fittings £000	Assets under Construction £000	Total £000
Cost or valuation										
At 1 April 2007	130,747	-	868	518	414	1,565	40	172	17,830	152,154
Additions	24,523	4,873	-	-	777	148	-	568	(13,902)	16,987
Disposals	(1,051)	-	-	-	(18)	(42)	-	-	-	(1,111)
Revaluations	85,130	-	332	31	(25)	69	-	7	-	85,544
At 31 March 2008	239,349	4,873	1,200	549	1,148	1,740	40	747	3,928	253,574
Depreciation										
At 1 April 2007	(10,568)	-	(120)	(398)	(238)	(760)	(35)	(48)	-	(12,167)
Provided in year	(4,246)	(301)	(15)	(10)	(80)	(61)	(1)	(32)	-	(4,746)
Disposals	1,051	-	-	-	15	35	-	-	-	1,101
Revaluations	(15,808)	-	(52)	(26)	51	(11)	-	(4)	-	(15,850)
At 31 March 2008	(29,571)	(301)	(187)	(434)	(252)	(797)	(36)	(84)	-	(31,662)
Net book value at 31 March 2008	209,778	4,572	1,013	115	896	943	4	663	3,928	221,912
Net book value at 31 March 2007	120,179	-	748	120	176	805	5	124	17,830	139,987
Asset financing:										
Owned	209,778	4,572	1,013	115	896	943	4	663	3,928	221,912
Net book value at 31 March 2008	209,778	4,572	1,013	115	896	943	4	663	3,928	221,912

**Analysis of tangible fixed assets**

The net book value of tangible fixed assets comprises:

Core Department 2008	209,778	4,572	1,013	1	736	-	-	531	3,928	220,559
Agencies 2008	-	-	-	114	160	943	4	132	-	1,353
Total	209,778	4,572	1,013	115	896	943	4	663	3,928	221,912
Core Department 2007	120,181	-	748	2	4	-	-	-	17,830	138,765
Agencies 2007	(2)	-	-	118	172	805	5	124	-	1,222
Total	120,179	-	748	120	176	805	5	124	17,830	139,987

Land and Buildings, excluding dwellings, comprise freehold, long leasehold (leases with 50+ years to run from the balance sheet date) and short leasehold buildings.

All core Department land and buildings were revalued as at 31 March 2008 by an independent Chartered Surveyor, Powis Hughes & Associates. The valuation was undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation Standards (6<sup>th</sup> Edition), and assets were revalued on the basis of existing use value.

Other tangible assets were revalued at 31 March 2008 based on appropriate indices published by the Office of National Statistics on Feb 2008.

**Operational Heritage Assets:**

The following listed buildings are used for operational purposes and have been valued on an Existing Use Value basis. They are included in the values for buildings, above. Operational heritage assets are located at the National Physical Laboratory in Teddington, namely Bushy House which includes The Clock House, the Conservatory and Garden Temple.

**Non-Operational Heritage Assets:**

The National Physical Laboratory museum and archives, including some former UK primary standard weights and measures, are non-operational heritage assets held for historical and cultural association alone. These are recorded in the Register of Assets at nil book value, in accordance with guidance in HM Treasury's *Financial Reporting Manual*, (FRM), which excludes museum collections, and other national archives existing at 31 March 2000 from the requirement of valuation.

Scientific equipment at 31 March 2008 includes a finance lease of which the net book value was £42,000 and depreciation charge in the year of £2,000. There were no finance leases as at 31 March 2007.

## 15. Intangible fixed assets

	<b>Core £000</b>	<b>Total Consolidated £000</b>
<b>Cost or valuation</b>		
At 1 April 2007	-	146
Additions	12	37
Disposals	-	(3)
Revaluations	-	(6)
<b>At 31 March 2008</b>	<b>12</b>	<b>174</b>
<b>Amortisation</b>		
At 1 April 2007	-	(85)
Charged in year	(2)	(19)
Disposals	-	3
Revaluations	-	4
<b>At 31 March 2008</b>	<b>(2)</b>	<b>(97)</b>
<b>Net book value at 31 March 2008</b>	<b>10</b>	<b>77</b>
<b>Net book value at 31 March 2007</b>	<b>-</b>	<b>61</b>

## 16. Investments

	<b>PDC £000</b>	<b>Student* loan £000</b>	<b>UKIPO £000</b>	<b>Other Investments £000</b>	<b>Total £000</b>
Cost or valuation					
At 1 April 2007	6,325	17,842,736	1,830	-	17,850,891
Additions	-	4,944,541	-	-	4,944,541
Repayments	-	(828,165)	(166)	-	(828,331)
Write off	-	(8,078)	-	-	(8,078)
Repurchase of sold debt	-	(636)	-	-	(636)
Loans repayable in 12 months transferred to debtors	-	(1,160,250)	(166)	-	(1,160,416)
<b>At 31 March 2008</b>	<b>6,325</b>	<b>20,790,148</b>	<b>1,498</b>	<b>-</b>	<b>20,797,971</b>

\*See also Notes 21 and 29.

**16.1 UK Intellectual Property Office (UKIPO) - Public Dividend Capital (PDC)**

	Value at 1 April 2007	Additions	Redemptions	Revaluations	Impairments	Loans repayable in 12 months transferred to debtors	Value at 31 March 2008
Public Dividend Capital	6,325	-	-	-	-	-	6,325
	<b>6,325</b>	-	-	-	-	-	<b>6,325</b>

The historical cost of the UKIPO – PDC at 31 March 2008 is £6,325,000 (at 31 March 2007: £6,325,000)

**16.2 Student Loans**

	<b>Total £000</b>
Balance at 1 April 2007	17,120,462
Amounts previously transferred to current assets 2006-07	722,274
<b>Total loans outstanding at 1 April 2007</b>	<b>17,842,736</b>
Student loans domicile adjustment	48
Repurchase of sold loans	(684)
New loans	3,904,970
Interest added	1,039,571
Repayments	(828,165)
Write offs (see Note 31c)	(8,078)
	<b>21,950,398</b>
<b>Loans repayable in 12 months transferred to current assets</b>	<b>(1,160,250)</b>
<b>Balance at 31 March 2008</b>	<b>20,790,148</b>

**16.3 UK Intellectual Property Office (UKIPO) - Loans**

	Value at 1 April 2007	Additions	Redemptions	Revaluations	Impairments	Loans repayable in 12 months transferred to debtors	Value at 31 March 2008
UKIPO loans	1,830	-	(166)	-	-	(166)	1,498
	<b>1,830</b>	-	<b>(166)</b>	-	-	<b>(166)</b>	<b>1,498</b>

The Loan to UK Intellectual Property Office is valued at historical cost.

The Department is required to disclose, for each investment which represents an interest in subsidiary undertaking, an associate or joint venture which falls outside the departmental consolidated boundary, the Department's share of the net assets and results of those bodies.

The UK intellectual Property Office (UKIPO) has prepared accounts for the period to 31 March 2008 and an extract from their accounts is summarised below:

	<b>31 March 2008</b>
	<b>UK Intellectual Property Office</b>
	£'000
Net Assets	87,048
Turnover	63,471
(Profit) / Loss for the period (before financing)	(12,481)

UKIPO's information is derived from their unaudited annual accounts for 2007-08 which were compiled in accordance with the requirements of the Government's *Financial Reporting Manual (FRM)*.

## 17. Stocks and work in progress

	<b>2007-08</b>		<b>2006-07</b>	
	<b>£000</b>		<b>£000</b>	
	<b>Core Department</b>	<b>Consolidated</b>	<b>Core Department</b>	<b>Consolidated</b>
Stocks	1,445	1,505	2,025	2,078
	<b>1,445</b>	<b>1,505</b>	<b>2,025</b>	<b>2,078</b>

**18. Debtors****18(a) Analysis by type**

	2007-08 £000		2006-07 £000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Amounts falling due within one year:</b>				
Trade debtors	11,247	13,372	17,175	17,124
VAT	6,400	6,413	-	(17)
Deposits and advances	52	57	45	48
Other debtors	375	299	615	615
Prepayments and accrued income	144,155	144,356	118,138	118,362
Loans repayable transferred from investments	1,160,416	1,160,416	722,440	722,440
	<b>1,322,645</b>	<b>1,324,913</b>	<b>858,413</b>	<b>858,572</b>
<b>Amounts falling due after more than 1 year:</b>				
Trade Debtors	-	-	-	-
	<b>1,322,645</b>	<b>1,324,913</b>	<b>858,413</b>	<b>858,572</b>

Included within the debtors above is £19,406K (2006-07: £14,184K) that will be due to the Consolidated Fund once the debts are collected, which relates to accrued interest on student loans repayments and UKIPO dividends.

**18(b) Intra-Government balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2007-08 £000	2006-07 £000	2007-08 £000	2006-07 £000
Balances with other central government bodies	94,980	89,398	-	-
Balances with local authorities	-	99	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	2,956	-	-	-
Sub total: intra-government balances*	<b>97,936</b>	<b>89,497</b>	-	-
Balances with bodies external to government	1,226,977	769,075	-	-
<b>Total debtors at 31 March</b>	<b>1,324,913</b>	<b>858,572</b>	-	-

\* Balances within the consolidated DIUS group (£1,500K) have been eliminated upon consolidation

**19. Cash at bank and in hand**

	2007-08 £000		2006-07 £000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	34,515	36,040	11,629	11,629
Net change in cash balances	254,604	254,773	22,886	24,411
Balance at 31 March	<b>289,119</b>	<b>290,813</b>	<b>34,515</b>	<b>36,040</b>

The following balances at 31 March were held at:

Office of HM Paymaster General Balance at 31 March	289,119	290,813	34,515	36,040
	<b>289,119</b>	<b>290,813</b>	<b>34,515</b>	<b>36,040</b>

**20. Creditors****20(a) Analysis by type**

	2007-08 £000		2006-07 £000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Amounts falling due within one year:</b>				
Other taxation and social security	3	3	1	1
Trade creditors	172,668	174,589	12,470	12,626
Other creditors	-	163	-	-
Accruals and deferred income	83,625	83,752	158,544	158,794
Amounts issued from the Consolidated Fund for Supply not spent at year end	37,655	37,655	1,525	1,525
Advances from Contingencies Fund	4,000	4,000	-	-
Consolidated Fund extra receipts due to be paid to the Consolidated Fund				
- received	247,633	247,633	34,515	34,515
- receivable	19,406	19,406	14,184	14,184
	<b>564,990</b>	<b>567,201</b>	<b>221,239</b>	<b>221,645</b>
<b>Amounts falling due after more than 1 year:</b>				
Finance leases	-	28	-	-
	<b>564,990</b>	<b>567,229</b>	<b>221,239</b>	<b>221,645</b>

**20(b) Intra-Government balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2007-08 £000	2006-07 £000	2007-08 £000	2006-07 £000
Balances with other central government bodies	458,872	129,142	-	-
Balances with local authorities	587	1,279	-	-
Balances with NHS Trusts	334	79	-	-
Balances with public corporations and trading funds	4,356	-	-	-
<b>Sub total: intra-government balances*</b>	<b>464,149</b>	<b>130,500</b>	<b>-</b>	<b>-</b>
Balances with bodies external to government	103,052	91,145	28	-
<b>Total creditors at 31 March</b>	<b>567,201</b>	<b>221,645</b>	<b>28</b>	<b>-</b>

\* Balances within the consolidated DIUS group (£1,677K) have been eliminated upon consolidation

**21. Provisions for liabilities and charges**

	Early departure costs £000	Student loans write off £000	Student loans interest subsidy £000	Student loans debt sale subsidy £000	Core Department		Consolidated
					Other £000	Total £000	Total £000
Balance at 1 April 2007	-	(1,898,867)	(1,223,765)	(359,256)	(10,812)	(3,492,700)	(3,492,700)
Provided in year	(462)	402,571	(2,018,556)	(16,420)	(90)	(1,632,957)	(1,632,977)
Provisions utilised in the year	204	8,078	213,174	30,227	4,959	256,642	256,642
Unwinding of discount rate	-	-	(141,379)	(7,904)	-	(149,283)	(149,283)
<b>Balance at 31 March 2008</b>	<b>(258)</b>	<b>(1,488,218)</b>	<b>(3,170,526)</b>	<b>(353,353)</b>	<b>(5,943)</b>	<b>(5,018,298)</b>	<b>(5,018,318)</b>

*Early departure costs*

The Department meets the additional costs of benefits beyond normal PCSPS benefits in respect of employees who retire early. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms.

*Student loans*

Student loans funded by the Department and administered by the Student Loans Company are shown in note 16.2. The two related provisions are:

*Student loans write-off provision*

The student loans write off provision was created to meet the future cost of loans which could not be recovered due to the death of the student, their income not reaching the income threshold, or not being able to trace the student. Each year the Department estimates the future cost of bad debts based on a percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student Loans Company.

### Student loans interest subsidy provision

Student loans are effectively interest free as students are only charged interest equivalent to the rate of inflation. The Department meets the costs resulting from the difference between the interest paid by students and the cost of capital on loans, which is known as the interest subsidy. The interest subsidy provision meets the cost of the interest over the life of the loan and is offset by the annual interest subsidy charge. The department increases the provision based on a percentage of loans issued in year.

These two provisions are calculated using a model which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour and estimate the likely repayments of student loans. The model is based on a complex set of assumptions – key assumptions include the borrowers' earnings on graduation and their likely earnings growth over the life of the loan (25 years). The model also uses the Treasury discount rate of 2.2% to calculate the present value of the cost and assumes that the Department will hold the loans until repaid or written off. Any changes to these assumptions could have a significant impact on the value of the provision included in the accounts. However, as set out in the accounting policies in Note 1 amounts provided reflect the Department's current estimate of the present value cost of issuing new loans.

A review of the estimates in 2007-08 has resulted in an increase to the interest subsidy provision of £1,333m and a decrease to the write off provision by £674m. These adjustments, which on a net basis increased provisions by £659m, reflect a reassessment of the key assumptions applied when calculating provisions in prior years to ensure that the utilisation of the provisions remains consistent with the actual pattern of loan repayments. This will improve our estimate of the provisions going forward. The net amounts provided in year include these changes together with the annual increase in provisions (£686m for the interest subsidy provision, and £271m for the write off provision).

In addition, the Department includes a provision for arising from two previous loan debt sales. This reflects the additional cost to the Department of government subsidies contractually due to the purchaser of the debts beyond the cost that the government would have incurred had the debts remained in the public sector.

### *Other*

#### Demolition and Decontamination

This provision covers the cost of demolition, decontamination and land remediation on the Department's site in Teddington, to bring the site to the level that meets planning approval for the redevelopment of the National Physical Laboratory.

#### Disposal of Radiological Sources

The Department has the responsibility to dispose of all radioactive waste arising from scientific projects undertaken at the National Physical Laboratory in accordance with the current legislation. This provision covers the cost of meeting radioactive waste disposal regulations, where it has been assessed that the transfer of economic benefits is highly probable.

**22. General Fund**

The General Fund represents the total assets less liabilities, to the extent that the total is not represented by other reserves and financing items.

	<b>2007-08</b>		<b>2006-07</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Core</b>	<b>Core</b>	<b>Core</b>	<b>Core</b>
	<b>Department</b>	<b>Consolidated</b>	<b>Department</b>	<b>Consolidated</b>
Balance at 1 April	14,431,279	14,433,804	12,621,885	12,624,481
Net Parliamentary funding				
Drawn down	19,436,228	19,436,228	24,214,354	24,213,774
MOG Transfer	-	-	(6,679,843)	(6,679,843)
Net Transfer from Operating Activities				
Net Operating Cost	(17,382,712)	(17,382,365)	(15,614,987)	(15,614,527)
CFERs payable to the Consolidated Fund	(286,369)	(286,369)	(153,385)	(153,385)
Year End Adjustment				
Supply (Creditor) / Debtor- current year	(37,655)	(37,655)	(1,525)	(1,525)
Non-Cash Charges:				
Cost of Capital	345,037	345,088	285,679	285,726
Auditor's remuneration	225	246	-	20
Other non-cash services	-	87	-	-
Student loan interest subsidy inflation adjustment	456,255	456,255	502,089	502,089
Transfer opening student loan and provision balances to NAW	-	-	(742,414)	(742,414)
Transferred from revaluation reserve	3,023	3,023	(574)	(592)
Balance at 31 March	16,965,311	16,968,342	14,431,279	14,433,804

**23. Revaluation reserve**

	<b>2007-08</b>		<b>2006-07</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Core</b>	<b>Core</b>	<b>Core</b>	<b>Core</b>
	<b>Department</b>	<b>Consolidated</b>	<b>Department</b>	<b>Consolidated</b>
Balance at 1 April	16,951	17,040	8,967	9,063
Arising on revaluation during the year (net)	69,222	69,285	8,558	8,569
Transferred to general fund in respect of realised element of the revaluation reserve (note22)	(3,023)	(3,023)	(574)	(592)
<b>Balance at 31 March</b>	<b>83,150</b>	<b>83,302</b>	<b>16,951</b>	<b>17,040</b>

**24. Notes to the Consolidated Cash Flow Statement****24(a) Reconciliation of operating cost to operating cash flows**

	Note	2007-08 £000	2006-07 £000
Net operating cost	13	(17,382,365)	(15,614,527)
Adjustments for non-cash transactions		1,548,686	1,107,516
(Increase) / Decrease in Stocks		575	-
(Increase) / Decrease in Debtors		(466,343)	(173,278)
less movements in debtors relating to items not passing through the OCS		468,290	20,487
Increase / (Decrease) in Creditors		345,586	149,166
less movements in creditors relating to items not passing through the OCS		(249,139)	(21,877)
Use of provisions	21	(256,642)	(541,265)
Write-off provisions		8,078	
Net cash outflow from operating activities		<u>(15,983,274)</u>	<u>(15,073,778)</u>

**24(b) Analysis of capital expenditure and financial investment**

	Note	2007-08 £000	2006-07 £000
Tangible fixed assets additions		(16,572)	(16,148)
Intangible fixed asset additions		(37)	-
Loans to other bodies		(3,915,946)	(2,964,252)
Repurchase of sold loans		670	(52)
Repayment of loans		808,827	671,349
Redemptions		166	166
Net cash outflow from investing activities		<u>(3,122,892)</u>	<u>(2,308,937)</u>

**24(c) Analysis of capital expenditure and financial investment by Request for Resources**

	Capital expenditure £000	Loans, etc. £000	A in A £000	Non A in A £000	Net Total £000
Request for Resources 1	(1,154)	(3,904,149)	637,750	190,415	(3,077,138)
Request for Resources 2	(15,870)	-	-	-	(15,870)
Net movement in debtors/creditors	415	(10,961)	(14,261)	(5,077)	(29,884)
<b>Total 2007-08</b>	<b>(16,609)</b>	<b>(3,915,110)</b>	<b>623,489</b>	<b>185,338</b>	<b>(3,122,892)</b>
<b>Total 2006-07</b>	<b>(16,148)</b>	<b>(2,964,138)</b>	<b>520,776</b>	<b>150,573</b>	<b>(2,308,937)</b>

**24(d) Analysis of financing**

	Note	2007-08 £000	2006-07 £000
From Consolidated Fund (Supply) – current year	22	19,436,228	17,533,931
<b>Net financing</b>		<u><b>19,436,228</b></u>	<u><b>17,533,931</b></u>

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

		<b>2007-08</b>	<b>2006-07</b>
		<b>£000</b>	<b>£000</b>
Net Cash Requirement	Note 4	(19,398,573)	(17,533,931)
From the Consolidated Fund (Supply) – current year	24(d)	19,436,228	17,533,931
Advances from the Contingencies Fund	20	4,000	-
Amounts due to the Consolidated Fund – received in a prior year and paid over		(34,515)	(11,629)
Amounts due to the Consolidated Fund received and not paid over	20	247,633	34,515
<b>Increase/(decrease) in cash</b>		<b>254,773</b>	<b>22,886</b>

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

The Department for Innovation, Universities and Skills was established following the Machinery of Government changes announced by the Prime Minister on 28 June 2007, taking on functions from the former Departments for Education and Skills and for Trade and Industry. The aim and objectives reflect the Department's Strategic Objectives which, whilst formally coming into effect from 2008-09, began to form the focus for planning and activity during 2007-08. The expenditure and income have been allocated against the objectives for the new Department for the year as a whole, with the prior year figures on a corresponding basis.

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

	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
Objective 1	202,336	231,434
Objective 2	5,690,029	4,876,628
Objective 3	5,690,029	4,876,628
Objective 4	4,744,132	4,697,457
Objective 5	983,475	868,927
Objective 6	3,406	3,420
Total	<b>17,313,407</b>	<b>15,554,494</b>

**Capital Employed by Departmental Aim and Objectives at 31 March 2008**

	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
Objective 1	293,142	62,360
Objective 2	8,373,436	7,157,730
Objective 3	8,373,436	7,157,730
Objective 4	76,440	25,399
Objective 5	(37,470)	24,007
Objective 6	(27,340)	23,618
Total	<b>17,051,644</b>	<b>14,450,844</b>

The Department's objectives are as follows:

- Objective 1 - Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life.
- Objective 2 - Improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the knowledge economy.
- Objective 3 - Build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills.
- Objective 4 - Pursue global excellence in research and knowledge, promote the benefits of science and society, and deliver science, technology, engineering and mathematics skills in line with employer demand.
- Objective 5 - Strengthen the capacity, quality and reputation of the further and higher education systems and institutions to support national economic and social needs.
- Objective 6 - Encourage better use of science in Government, foster public service innovation, and support other government objectives which depend on DIUS expertise and our remit.

## 26. Capital commitments

	2007-08 £000		2006-07 £000	
	Core Department	Consolidated	Core Department	Consolidated
Contracted capital commitments as at 31 March for which no provision has been made*	1,777	1,777	2,879	2,879
	<u>1,777</u>	<u>1,777</u>	<u>2,879</u>	<u>2,879</u>

\*The commitments relate to the contracted cost of completing the Linear Accelerator (Linac) building<sup>1</sup> of £1,542K (2006-07: nil) and the National Physical Laboratory building of £235K (2006-07: £2,879K)

<sup>1</sup>The Linear Accelerator building holds clinical facilities for research on linear accelerator activities. This also includes the cost of replacing old machines with the new ones, which conform with the specification recommended by the National Radiotherapy Advisory Group

## 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.

**Obligations under operating leases comprise:**

	2007-08		2006-07	
	Core Department	Consolidated £000	Core Department	Consolidated £000
*Other:				
Expiry within 1 year	1,174	1,174	15	16
Expiry after 1 year but not more than 5 years	-	11	7	9
Expiry thereafter	-	-	-	-
	<u>1,174</u>	<u>1,185</u>	<u>22</u>	<u>25</u>

\*Other operating leases include ICT services contract with Fujitsu Services Limited and a photocopier lease which was inherited from the former Department of Trade and Industry.

### 27.2 Non-cancellable contracts

At 31 March 2008, DIUS was committed to making the payments listed in the table below following the year of these accounts in respect of the Memorandum of Terms of Occupation for Kingsgate House agreed with the Department of Business Enterprise and Regulatory Reform.

	2007-08		2006-07	
	Core Department	Consolidated £000	Core Department	Consolidated £000
Rentals due within 1 year	2,461	2,461	-	-
Rentals between 2 – 5 years	2,461	2,461	-	-
Rentals over 5 years	-	-	-	-
	<u>4,922</u>	<u>4,922</u>	<u>-</u>	<u>-</u>

### 27.3 Finance leases

Commitments under finance 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.

**Obligations under finance leases comprise:**

	2007-08		2006-07	
	Core Department	Consolidated £000	Core Department	Consolidated £000
Rentals due within 1 year	-	19	-	-
Rentals between 2 - 5 years	-	9	-	-
Rentals over 5 years	-	-	-	-
	-	<u>28</u>	-	<u>-</u>
Less interest element	-	-	-	-
	<u>-</u>	<u>28</u>	<u>-</u>	<u>-</u>

National Weights and Measures Laboratory, the executive agency, has taken up a finance lease during the year for equipment to be used within the certification services unit.

## 28. Other financial commitments

The Department is committed to making payments to non-cancellable contracts (which are not leases or PFI contracts), and subscriptions to international bodies. The payments which the Department is committed to make during 2008–09, analysed according to the period in which the commitment expires, are as follows:

	2007-08		2006-07	
	Core Department	Consolidated £000	Core Department	Consolidated £000
Expiry within 1 year	6	6	-	-
Expiry within 2 to 5 years	80	80	6	6
Expiry thereafter	56,829	56,829	63,167	63,167
	<u>56,915</u>	<u>56,915</u>	<u>63,173</u>	<u>63,173</u>

The amounts disclosed above are for subscriptions and fees paid to the following bodies:

Organisation	Expiry within 1 year £000	Expiry within 2 To 5 years £000	Expiry over 5 years £000	Total £000
European Space Agency (ESA)	-	-	56,087	56,087
Bureau International des Poids et Mesures (BIPM)	-	-	694	694
The International Organisation of Legal Metrology (OIML)	-	-	40	40
EURAMET	-	-	8	8
Vodafone	6	80	-	86
Total	<u>6</u>	<u>80</u>	<u>56,829</u>	<u>56,915</u>

DIUS subscribes to four main international bodies, European Space Agency, Bureau international Des Poids Et Measures [BIPM], International Organisation of Legal Metrology [OIML] and EURAMET. The Department is required to subscribe to these bodies on an on-going and continuous basis. Subscriptions are estimated to increase by 3% each year. The purpose of each for these bodies are describe below.

The European Space Agency (ESA) carries out civil space programmes for its Member States, including the UK. The Department's contributions cover part of the Agency's general budget, which is, under the ESA Convention, mandatory for all Member States, who share it in proportion to net national income at factor cost. The UK contribution is shared between the Department and the Research Councils, which also take part in the programmes of the Agency, broadly in proportion to their shares in the total UK funding of the Agency. In 2007-08, the Research Councils concerned were the Science and Technology Facilities Council (STFC) and Natural Environment Research Council (NERC). The Department's contributions also cover the UK's share of those individual "optional" programmes of the Agency to which the UK has committed funding, which are directed towards industrial and commercial objectives.

The Bureau International des Poids et Mesures' (BIPM) mandate is to provide the basis for a single, coherent system of measurements throughout the world, traceable to the international System of Units (SI). The annual subscription has been payable since the Government signed up to the Metre Convention circa 1888.

The International Organisation of Legal Metrology (OIML) promotes the global harmonisation of legal metrology procedures. It provides its members with metrological guidelines for the elaboration of national and regional requirements concerning the manufacture and use of measuring instruments for legal metrology application. The payment is made on behalf of the National Weights and Measures Laboratory (NWML) and is a requirement of their international legal metrology role.

EURAMET, formally known as EUROMET, is a co-operative voluntary organisation between the National Metrology Institutes (NMIs) in the EU including the European Commission, EFTA and EU Accession States. The objective of EURAMET is to promote the co-ordination of metrological activities and services with the purpose of achieving higher efficiency. EURAMET was formally established by the signing of a Memorandum of Understanding (MOU) by participating States in Madrid, Spain on 23 September 1987 to become operative from 1 January 1988. The Department makes an annual payment on behalf of the National Physical Laboratory, which is a requirement of their international metrology role.

## **29. Financial instruments**

### **29.1 Risk management objectives and policies**

Financial Reporting Standard 13: Derivatives and Other Financial Instruments requires disclosure of the objectives and policies of an entity in holding financial instruments, and the role financial instruments have had during the period in creating or changing the risks the entity faces 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 these disclosures.

Because of the largely non-trading nature of its activities and the way government departments are financed, the Department 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, invest surpluses, or purchase foreign currency. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the Department in undertaking its activities.

### **29.2 Liquidity risk**

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, as is most of its capital expenditure. It is not, therefore, exposed to significant liquidity risks, and the Department has no need to maintain commercial borrowing facilities.

### **29.3 Interest-rate risk**

The Department has no material financial assets or financial liabilities carrying fixed rates of interest and it is not therefore exposed to significant interest rate risk.

### **29.4 Currency risk**

The Department's exposure to foreign currency risk is negligible. The foreign currency income received by the Department is negligible and foreign currency expenditure is less than 0.25% of the total expenditure during the course of the year. Hence, the Department's foreign currency risk is regarded as insignificant.

All foreign currency transactions are accounted for as stated in accounting policy note 1.12

## 29.5 Financial assets and liabilities

The Department's financial assets and financial liabilities as at 31 March 2008, stated at fair value and book value is set out as follows.

	Book value	Fair value	Basis of fair valuation
	£000	£000	£000
Primary financial instruments:			
<i>Financial assets</i>			
Student loans	21,950,398	21,950,398	
Student Loan write-off and Interest subsidy provision	(4,658,744)	(4,658,744)	
	<u>17,291,654</u>	<u>17,291,654</u>	note a
Loan to UK Intellectual Property Office	1,498	1,970	note b
Public Dividend Capital	6,325	6,325	note c
<i>Financial liabilities</i>			
Provisions	(359,554)	(359,554)	note d

## Notes:

- a The net balance derived from the Student Loan balance, write-off provision and interest subsidy represents the Department's estimate of the discounted present values of cash flows from Student Loans. In accordance with the Financial Reporting Manual, this reflects an appropriate estimate of fair value in the absence of market valuations. This is subject to the assumptions described in Note 21 regarding the student loans repayment model.

In the 2007 Budget Statement the Government announced its intention to sell student loans totalling around £6 billion between 2008-09 and 2010-11. The Government is therefore currently examining the possibility of selling part of the student loans book. New legislation, which is due to be enacted on 22 July 2008, will enable but not commit the Government to sell any loans, and any sale is subject to confirmation that this would provide value for money. It is expected to be several months before any final decision is made. The fair value of the student loans above does not therefore reflect a potential sales value which will depend on the final terms of the sale and the market conditions prevailing at the time.

The resource accounts recognise the student loans valued on the basis that they are held to maturity until such time as a decision to sell the assets has been made, consistent with prior years. If sales of student loans take place in subsequent accounting periods it will be necessary to re-estimate the fair value in accordance with the relevant accounting standards. In addition, Financial Reporting Standard 26 on the Recognition and Measurement of Financial Instruments, to be applied for the 2008-09 financial period, may also impact on the value shown in future.

- b UK Intellectual Property Office loans earn fixed rate interest based on the government lending rates, from the day the loan was issued. The fair value of the loan has been calculated by discounting future cash flows at the 31 March 2008 interest rate of 4.72%: this is the rate applicable to loans of 26 years in accordance with Treasury guidance.
- c The Public Dividend Capital invested in UK Intellectual Property Office has been valued at book value since the day of inception. The fair value of such capital is not available in the open market and therefore the fair value is regarded as not significantly different from the book value.
- d The fair value of the provisions is not significantly different from the book value since, in the calculation of the book value, the expected cash flows have been discounted by the Treasury discount rate of 2.2% in real terms.

### 30. Contingent liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability purposes

#### 30.1 Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2007 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2008 £000	Amount reported to Parliament by Departmental Minute £000
<b>Statutory Indemnities</b>						
The Department will meet the accrued Civil Service redundancy entitlement to date of secondees who resigned from the Department to take up Training and Enterprise (TEC) employment on or after 1 January 1993 in TECs in England and Wales if:	2,500	-	47	-	2,453	-
a) Their TEC makes them redundant due to direct government action during their first five years of employment;						
b) A court or tribunal ever ruled that TEC and civil service employment were continuous for redundancy calculation purposes.						
The Department has and will continue to give indemnities to Training and Enterprise Councils (TECs), Chamber of Commerce, Training and Enterprise Councils (CCTEs), their representative TEC bodies and those concerned with the wind up, transfer or continuation of TEC delivered activity, where this will facilitate the conclusion of the working and contractual relationship between TECs, CCTEs and Government, thereby ensuring the continuation of essential discretionary activity and the reserves owing to the Secretary of State at the earliest opportunity. The indemnities will include:						
a) Liabilities that arise from the audit work carried in respect of the delivery of activities funded through European Union initiatives or through single Regeneration Budget and other schemes sponsored by Government Departments other than the former DFES and DTI;	60,747	-	-	32,763	27,984	-
b) Liabilities that arise from the transfer of TEC/CCTE functions to successors, including from staff who have transferred or been made redundant, and who as a result of the transfer seek redress through the Employment Tribunal;	1,000	-	-	-	1,000	-
c) Liabilities arising from properties leased by TECs/CCTEs that they have been unable to dispose of by the time they wind up. The Department may take over these leases and dispose of them on behalf of the TECs/CCTEs.	4,935	-	-	535	4,400	-
In order to ensure the Croydon Local Learning and Skills Council (LLSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CCTE) property exists in the Croydon LLSC area an indemnity to give a landlord a guarantee that, in the event of the Learning and Skills Council (LSC) ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	4,037	-	-	415	3,622	-

	1 April 2007	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2008	Amount reported to Parliament by Departmental Minute
In order to ensure the Learning and Skills Council (LSC) commenced operations in April 2001 and because no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training Enterprise (CTTE) property exists in Brighton, Manchester or Coventry area an indemnity to give landlords a guarantee that, in the event of the LSC ceasing to exist the Secretary of State will take over the lease. This is because, to the landlord, the LSC is an unknown body with no financial history.	30,688	-	-	2,890	27,798	-
Arrangement to allow the appointment of a receiver to manage the affairs of Merseyside Training and Enterprise Council (MTEC).	2,000	-	-	-	2,000	-
Arrangement to allow the appointment of a receiver at any TEC we believe necessary	6,000	-	-	-	6,000	-
In order to ensure that the Kempston Local Learning and Skills Council (LLSC) commenced its operations on time, and because there was no suitable Training and Enterprise Council (TEC) or Chamber of Commerce Training and Enterprise (CTTE) property in the Kempston LLSC area, and because the LSC was an unknown body to the landlord with no financial history the landlord required the Secretary of State to act as guarantor. In the event of the LSC ceasing to exist, the Secretary of State will be required to take over responsibilities under the lease.	386	-	-	144	242	-
In order to ensure that Adult Learning Inspectorate (ALI) commenced operations in April an indemnity was given to the landlord which guaranteed that, in the event of ALI ceasing to exist the Secretary of State will take over the lease of ALI's office in Coventry. This is because, the ALI was an unknown body with no financial history. The Education and Inspections Act 2006 abolishes the ALI, and transfers its functions to Office for Standards in Education, Children's Service and Skills. Consequently from 1 April 2007 this property and its associated liability transfer to the new Ofsted.	6,000	-	-	6,000	-	-
Potential liability relating to European Schools Programme for teachers claiming permanency under the fixed term employee regulations who may claim redress through the Employment Tribunal.	-	1,120	-	-	1,120	-
	<b>118,293</b>	<b>1,120</b>	<b>47</b>	<b>42,747</b>	<b>76,619</b>	<b>-</b>

### 30.2 Unquantifiable

The Department has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

- European Patent Office (EPO): the UK as one of the contracting states has a potential liability under Article 40 of the European Patent Convention of 1973.
- World Intellectual Property Organisation: the UK, as a contracting state to the Patent Co-operation Treaty of 1970, has a potential liability under Article 57 of the Treaty.

- A possible liability to meet outstanding unforseen claims against the Design Council Pension Scheme, whereby no reimbursement from other parties is available to cover such cost.
- Liabilities relating to the issue of licences to operators of satellites and other space objects.
- DIUS has an outstanding legal claim for an early termination of a service contract delivering best practice and monitoring services to a third party.

### 31. Losses, special payments and other notes

#### 31(a) Losses statement

	No. of cases	2007-08 £000	2006-07 £000
Details of cases			
Cash losses*	11	1,510	1,367
Fruitless payments	26	3	-
Store losses	2	2	-
Total	39	1,515	1,367

Details of cases over £250,000

\*Individual Learning Accounts (ILAs). Work has continued with the police to either prosecute or recover grants claimed by training providers for improper activities. Included in the cash losses is £1,491,112 (6 cases) where recovery has not been possible because the provider has either been dissolved or gone into liquidation.

#### 31(b) Special payments

	No. of cases	2007-08 £000	2006-07 £000
Compensation payments	2	219	27
Total	2	219	27

There were no individual special payments above £250,000.

#### 31(c) Other notes

##### Loans remitted (written off) in year

Loans totalling £8,078,000 issued by the Student Loans Company were remitted during the year mainly due to 420 deaths (£1,670,000), 1,299 borrowers reaching an age when their loans are cancelled (£3,686,000), 686 bankruptcies (£1,988,000) and 144 disabled.

##### Acquisition of shares

The Department held the following shares during the financial year:

Shares held at 1 April 2007	£ 5
Acquired in year	-
Total shares held at 31 March 2008	5

The closing balance of shares held by the Department comprises 5 ordinary shares of £1 in the Student Loans Company Limited. Further information on the Student Loans Company is available in their separately published accounts.

### 32. Related-party transactions

The Department is the parent of the National Weights and Measures Laboratory (NWML) and sponsors of the Non-Departmental Public Bodies (listed below) and UKIPO (Trading Fund). These bodies are regarded as related parties with which the Department has had various material transactions within 2007-08 financial year.

During the year DIUS made payments to the following executive Non-Departmental Public Bodies and Research Councils for which it has lead responsibility:

- Design Council
- Higher Education Funding Council for England
- Investors in People UK Ltd
- Learning and Skills Council
- Office for Fair Access
- Quality Improvement Agency
- Student Loans Company Ltd
- Technology Strategy Board
- Sector Skills Development Agency
- National Endowment for Science, Technology and the Arts
- ConstructionSkills
- Engineering Construction Industry Training Board

- Arts and Humanities Research Council
- Biotechnology and Biological Sciences Research Council
- Economic and Social Research Council
- Engineering and Physical Sciences Research Council
- Medical Research Council
- Natural Environment Research Council
- Science and Technology Facilities Council

In addition, the Department has had various material transactions with Other government Departments. Most of these transactions have been with the Department for Children, Schools and Families and the Department for Business, Enterprise and Regulatory Reform.

Sir Keith O'Nions, a board member of the DIUS is also a member of the steering board of UKIPO (DIUS's Trading Fund). Two independent members of the DIUS Audit and Risk Committee, Ian Dickson and Geoffrey Drage, are also chairpersons of the Audit and Risk Committee of the Student Loans Company and UKIPO respectively. In addition, Geoffrey is an external member of the steering board of the UKIPO.

None of the other DIUS board members or members of key managerial staff have undertaken any material transactions with the Department during the year apart from Nicholas Edmonds who is on secondment from KPMG LLP from 1 July 2007 to 30 June 2008. He was subsequently been replaced by William Dickinson, who is also on secondment from KPMG LLP.

### 33. Entities within the departmental boundary

The entities within the departmental boundary during 2007-08 were the main Department and its agency, the National Weights and Measures Limited (NWML). NWML publishes separate accounts which can be obtained from The Stationery Office

#### Entities not consolidated

DIUS is responsible for an executive agency, UK Intellectual Property Office (UKIPO). This body is a Trading Fund and as such its expenditure does not fall within the Department's Request for Resources. UKIPO is required to service its debt, pay a dividend and fund its annual administration costs through fee income. More detailed information regarding the UKIPO's financial performance can be found in its published accounts and can be obtained from The Stationery Office.

Public bodies for which DIUS had lead policy responsibility during 2007-08 within government, but which are outside of the consolidation boundary for accounting purposes, are set out below. Non Departmental Public Bodies (NDPBs) are reflected in the DIUS's accounts by the inclusion of funds paid to them as grants or expenses and noted any significant control issues in the DIUS's Statement on Internal control. Only three executive NDPBs, namely Construction Skills, Engineering Construction Industry Training Board and Film Industry Training Board are partly funded by levies which they raise from industry. The executive NDPBs publish their own annual reports and accounts which can be obtained from The Stationery Office or the relevant body.

#### Non-Departmental Public Bodies (NDPBs):

**Executive NDPBs:** these carry out a wide variety of administrative, regulatory and commercial functions. They generally operate under statutory provisions, employ their own staff and have responsibility for their own budgets.

- Design Council
- Higher Education Funding Council for England
- Investors in People UK Ltd
- Learning and Skills Council
- Office for Fair Access
- Student Loans Company Ltd
- UK Commission for Employment and Skills (became operational 1 April 2008)
- Sector Skills Development Agency (wound up on 31 March 2008)
- Technology Strategy Board
- National Endowment for Science, Technology and the Arts
- Quality Improvement Agency

#### Executive NDPBs funded by levy

- ConstructionSkills
- Engineering Construction Industry Training Board (to become operational later in 2008)
- Film Industry Training Board

#### Research Councils:

- Arts and Humanities Research Council
- Biotechnology and Biological Sciences Research Council
- Economic and Social Research Council
- Engineering and Physical Sciences Research Council
- Medical Research Council
- Natural Environment Research Council
- Science and Technology Facilities Council

#### Tribunal NDPB:

- Copyright Tribunal

**Advisory NDPBs:**

Council for Science and Technology  
Strategic Advisory Board for IP (established 2 June 2008)  
British Hallmarking Council

**Other Bodies**

University for industry Learndirect  
National Physical Laboratory

**34. Third – party assets**

The following balances are held in the Department's name at the HM Paymaster General bank account. They are not Departmental monies but are included in the Department's Resource Accounts. These monies are held for the benefit of the Research Council's Pension Schemes and the balances were received from the Scottish Executive Environment & Rural Affairs Department. The balances are set out in the table below:

	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
Bank balances	63,000	-



Operating Cost Statement	Transfer from	Transfer from	Restated balance
	DfES	DTI	at 31 March 2007
	£000	£000	£000
Administration Costs			
Staff Costs	23,858	18,452	40,045
Other Administration costs	14,847	6,153	21,000
Income	12	(1,024)	(1,012)
Programme Costs			
Request for Resource 1			
Programme Costs	19,607,012	275,242	19,884,519
Income	(7,396,258)	(43,788)	(7,440,046)
Request for Resource 2			
Programme Costs	-	3,116,446	3,116,446
Income	-	(6,425)	(6,425)
	12,249,471	3,365,056	15,614,527

### 36. Post Balance Sheet Events

There were no Post Balance Sheet Events between the balance sheet date and 18 July 2008 when the Accounting Officer authorised the accounts for issue.







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