

National School of Government

Annual Report and Resource Accounts 2006–07

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National School of Government

Annual Report and Resource Accounts 2006-07

(For the year ended 31 March 2007)

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

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Foreword

It is my pleasure to lay the 2006-2007 Annual Report and Accounts for the National School of Government before the Westminster Parliament, the Scottish Executive, the National Assembly for Wales and the Northern Ireland Assembly.

This Report is the first published by the National School as a new department separated from the Cabinet Office in January 2007. It reflects a year of transition both to a new status and from the models of its institutional predecessors, the Civil Service College and the Centre for Management and Policy Studies (CMPS). As you will see, the Report reflects real progress in building the capacity that will allow the National School to fulfil the ambition of its strategy endorsed by Permanent Secretaries before its launch in 2005, reflecting an important element in our reform of the Civil Service.

Gillian Merron MP

Parliamentary Secretary and Minister for the East Midlands, Cabinet Office

Chairman's Introduction

I was delighted to be asked by Sir Gus O'Donnell in March 2006 to chair the Board of the National School of Government and welcomed the opportunity, together with my fellow Board members, to guide the organisation through its first full business year since its formal launch in June 2005. I have not been disappointed. It has been a most interesting year.

The strategy for the National School which had been endorsed by Permanent Secretaries just under a year before is to be the Centre of Excellence for Learning and Development in support of the strategic priorities of government. This is a suitably high aspiration consistent with our wider ambitions for civil service reform.

Supported by some short term funding contributions from Whitehall departments, David Spencer and his team have made commendable progress in meeting the challenge of transforming the organisation to be able to deliver the strategy. Many examples are provided in this report, not least of which has been achieving the National School's overall financial target during a year of transition to non-ministerial department status. In addition, supporting the strengthening of civil service corporate leadership, including responding to the capability reviews of departments, and the ongoing implementation of Professional Skills for Government have been high priority activities.

Further challenges lie ahead. I look forward to working with my colleagues on the Board and with David and his team in continuing to build on the foundations we have put in place.

**Sir Brian Bender KCB,
Chairman
National School of Government Board**

Chief Executive's Introduction

As our Chairman has said in his introduction, in June 2005, in step with the Government's agenda for civil service reform, the National School of Government was launched with a mission to be the Centre of Excellence for Learning and Development in support of the strategic business priorities of government.

The National School enjoys the heritage of being the largest and longest-established public sector academy in the UK with thirty eight years experience of providing high quality development within the civil service. New challenges require fresh solutions, however, and the School has aligned itself more closely with the strategic needs of government, whilst strengthening its own capacity and drawing upon the best thinking and practice that the world of public administration has to offer.

Whilst building on the strengths of its institutional predecessors the Civil Service College and the Centre for Management and Policy Studies (CMPS), the National School strategy has been developed to serve government better, by moving from:

- **Volume to reputation and impact**
- **Product-led to demand-led**
- **Individual development to organisational development**
- **Generic open programmes to single client and corporate interventions that support the specific priorities of government**
- **Competing with to working with** other business schools, universities and public sector academies
- **Following trends to research and thought leadership**
- **No investment to a sustainable business model which allows for the development of the organisation and its products and services**

Essentially, the National School approach is to ask organisations: "How can we work with you to achieve your policy and delivery objectives?" This requires engagement at a more strategic level to better understand and respond to those needs rather than purely marketing to individuals in order to develop their knowledge and skills. The National School has developed its strategic relationship management capacity in order to fundamentally change the nature of the relationship with its stakeholders and clients.

A further major development has been the establishment of the National School as a non-ministerial department in January 2007. This change of status and the creation of the National School as a new department in its own right at the centre allows it to continue to provide the corporate lead on development across government and at the same time provide greater autonomy to strengthen its strategic role. As Sir Gus O'Donnell put it;

"Its new status as a non-ministerial department will reflect wider ownership and accountability across the civil service and beyond – in effect it has the freedom to develop into a world-class resource for the public service."

The "wider ownership" that Gus referred to is reflected in the National School Board which comprises leaders from across Whitehall, the wider public and third sectors.

The National School has the potential to make a real contribution to the business objectives of government, and has made great strides in developing the capacity it needs to do so. This report explains the National School strategy and its implementation, and reports on progress against it. It also describes the complex and dynamic context to which the strategy has responded, and outlines future challenges and the decisions that must be taken if they are to be met.

I hope you enjoy reading it.

David Spencer
Principal & Chief Executive
National School of Government

The National School in Context

Although new in both name and remit, the National School is the latest manifestation of a succession of government organisations established with the broad aim of providing skills and organisational development for the Civil Service (principally), and the wider public service and third sectors. The ways in which each has gone about its business directly reflects the priorities and orthodoxies of the time, both in terms of business models and organisational configuration. Success for the National School going forward will largely depend on its ability to understand the strengths and weaknesses of its institutional predecessors and to develop a sustainable model that will deliver its agreed strategy. It will also depend on all stakeholders in government making the most of its key resource for learning and development.

The Civil Service College had its origins in the 'Fulton Report' of 1968 which advocated the College provide (amongst other things) courses for specialists, post-entry-training for graduates, and management training. This it did with some success, largely in the shape of residential training courses run at Sunningdale Park. When the College opened in 1970, there was no suggestion that Departments should pay for its services; entirely funded, it was a monopoly provider of training for government departments who had no delegated budgets for training and development. The picture changed dramatically in 1989 when the College was formally established as a Next Steps Agency – all central funding was stopped and the College was tasked with charging for its services operating on a full cost recovery regime in the belief that this would improve efficiency, effectiveness and accountability.

Whilst the College performed well as an Agency competing in an open market, the pressure of becoming and remaining commercially competitive had driven it towards middle management training and away from strategic organisational and senior leadership concerns. In 1999, as a result of recommendations made in the Modernising Government White Paper following a review, the College became part of the Centre for Management and Policy Studies (CMPS). Although the organisation became better connected to the centre of government, and took on greater responsibility for corporate and leadership development and support for policy makers, it remained shackled by a business model that saw it obliged to continue the provision of generic (and largely residential) management training in order to fund high quality corporate and leadership development. Despite a relaunch as 'new' CMPS in 2004, familiar criticisms of the organisation coupled with the limitations of what was essentially the Agency business model were drivers for a new way of doing business and the development of the strategy for what was to become the National School of Government.

"...the School will form part of the centre of the Civil Service; it will have a close understanding of the government's agenda. It is therefore uniquely placed to specify and shape this learning and development to support government's objectives."

Sir Andrew Turnbull, Cabinet Secretary and Head of the Civil Service speaking at the launch of the National School of Government – June 2005

Towards the 'enabling state'

The context in which modern public services are designed and delivered is complex, fluid, and increasingly global. The ground shifts constantly, and today's solution has a nasty habit of becoming tomorrow's problem.

Internationally, the challenges of modern public service delivery are converging – the UK is not alone, for example, in facing demographic changes that will see the number of households grow, whilst an ageing and diverse population places greater demands on health, housing, long-term care and pensions.

Meanwhile, across the developed world reform cycles are shortening, distinctions between policy and delivery are being dissolved, and the nature of relationships between organisations and citizens – and organisations themselves – is shifting.

During 2006/07, Cabinet Secretary and Head of the Civil Service Sir Gus O'Donnell highlighted key challenges for the UK in climate change, migration, a security threat we did not expect a decade ago, and community cohesion. He described an economy in which skills and innovation are key to prosperity, and an era in which technological advancement drives rising expectations of personal choice and high quality public services.

In response, Sir Gus described a blueprint for UK civil and public service reform which will see the users of services increasingly involved in determining how services are delivered, and by whom. Government is now attached to the concept of 'the enabling state' – a flexible, supportive and responsive state that assists rather than directs. This means diversity of provision in public services, and already the majority of public services are delivered outside the Civil Service.

Efficiencies

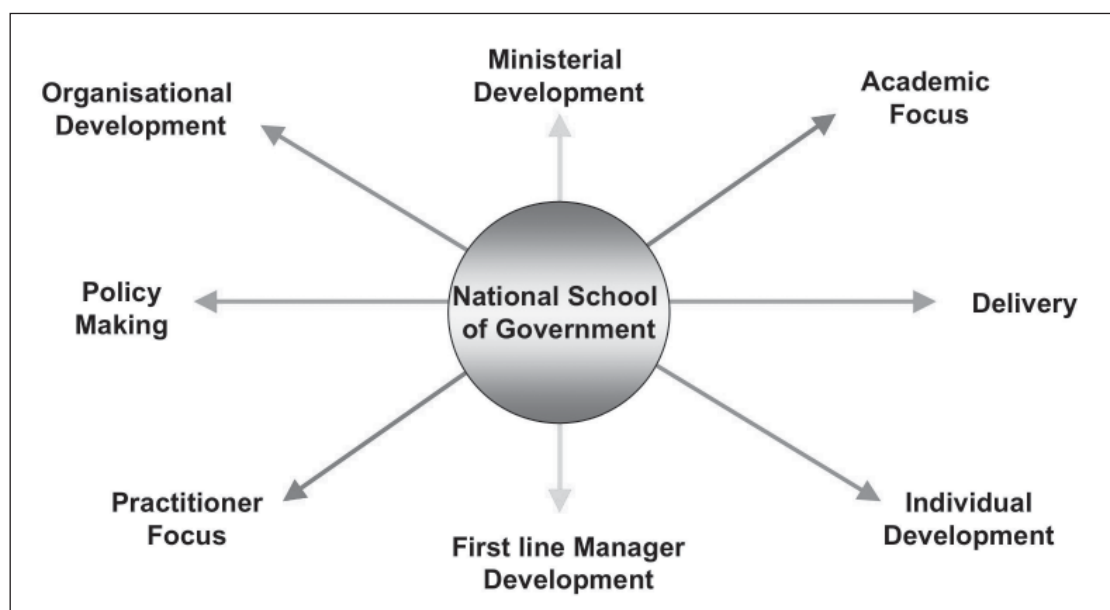
To further complicate the picture, a requirement for the Civil Service to do more with less has seen 'efficiency' rise to the top of the agenda. Numbers of civil servants are reducing as a consequence of efficiencies recommended in 2004 following the Gershon Review.

Squaring the circle of providing better service with fewer resources places a special onus on civil servants improving their professional skills, and organisations better configured to do the job. And such a pivotal requirement demands an equally dynamic response from the National School as principal provider of organisational and skills development to government.

Competing demands

The Professional Skills for Government programme and the findings of Departmental Capability Reviews introduced by Sir Gus O'Donnell reveal diverse and complex development needs. Because an organisation needs on-going help with high-level organisational development, it does not automatically follow that it does not also need high quality, easily-accessed training for staff across a range of disciplines. Nor does the need for help with policy development preclude the need for assistance with delivery. Development with leading-edge academic content must not be at the expense of a sharp practitioner focus.

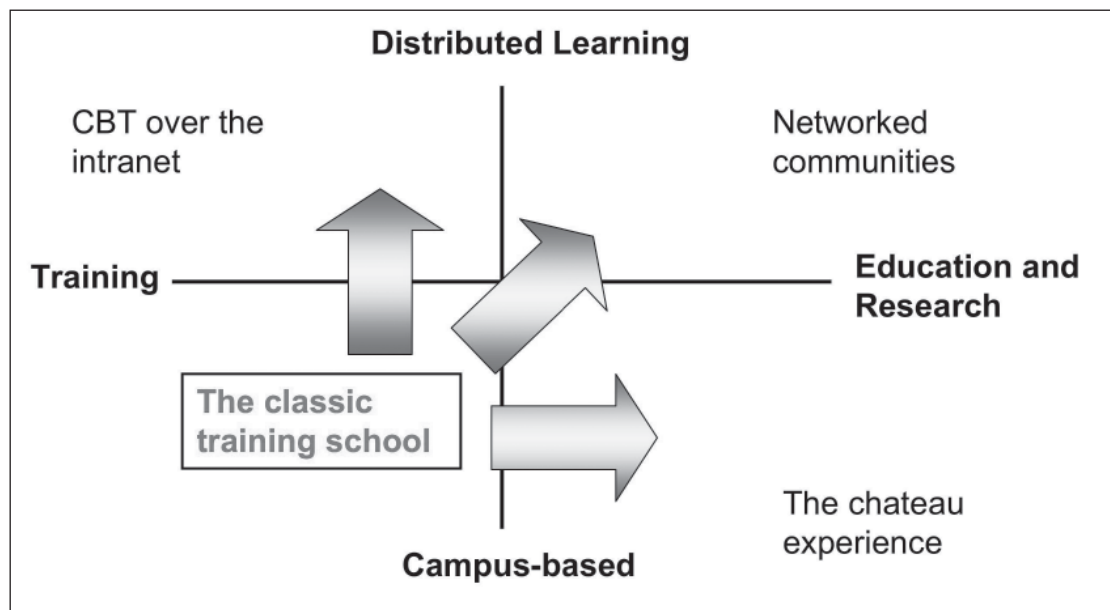
Figure 1 – Competing client demands



Central to the National School strategy is that it should be both expert and resourced at all points on the axes described in Figure 1 (see above). This demands an agile organisation – able to deal with competing and unpredictable demands, with the necessary physical and intellectual resources, whilst acknowledging the resource constraints facing our clients, and which we ourselves face.

Sunningdale Park, the headquarters of the National School, follows the classic residential training school model of the 1970s with its country house and acres of parkland. However, the last 30 years has seen a shift in the ways that business schools, corporate universities and their equivalents have organised themselves.

Figure 2 – A typology of Corporate Universities (Rob Paton)



Driven by client need for more cost-effective development, and facilitated by the rise of enabling technologies – notably computers and the Internet – classroom-based learning has learned to share educational space with networked communities and learning in the workplace. Needless to say, there is much to recommend the residential training school, and it will remain an important component of what the National School has to offer. However, the need to respond flexibly and appropriately to demand, within tight economic parameters at both ends of the transaction, has seen a significant rise in the work undertaken away from Sunningdale Park supported by new technology. It is a trend we expect to continue.

The Exam Question

The exam question that the strategy and business model for the National School needs to address is; how do you build...

- A sustainable organisational model
- Highly flexible and responsive to meeting the complex set of competing demands (fig. 1)
- With a high reputation
- At low fixed cost
- Within a sector facing arguably the most challenging efficiency agenda in the past 20 years?

Developing Capacity

Delivering the National School strategy has required major capacity-building. In July 2005 Permanent Secretaries agreed that departments should provide £11.8m funding over a three year period to help the transition to a new organisation that will be able to deliver its strategy. In 2006/07 we have worked to:

- develop our existing faculty
- strengthen our intellectual capacity
- refresh our Associate faculty
- establish partnerships with universities and business schools
- work with public sector academies and international institutions

Develop our existing faculty

Responding to the increasing demand for development within organisations in order to bring about change and the pressure that organisations are under to evaluate the impact of the intervention and return on investment, the National School has designed and delivered in partnership with the University of Birmingham and the Tavistock Institute a new MSc degree – Leading Change and Organisational Development.

"If government departments are to respond to the challenging demands on public services, then both structural changes and a shift in behaviour amongst public servants is required. This new masters degree from the National School of Government will support those civil servants who are leading this process of reform."

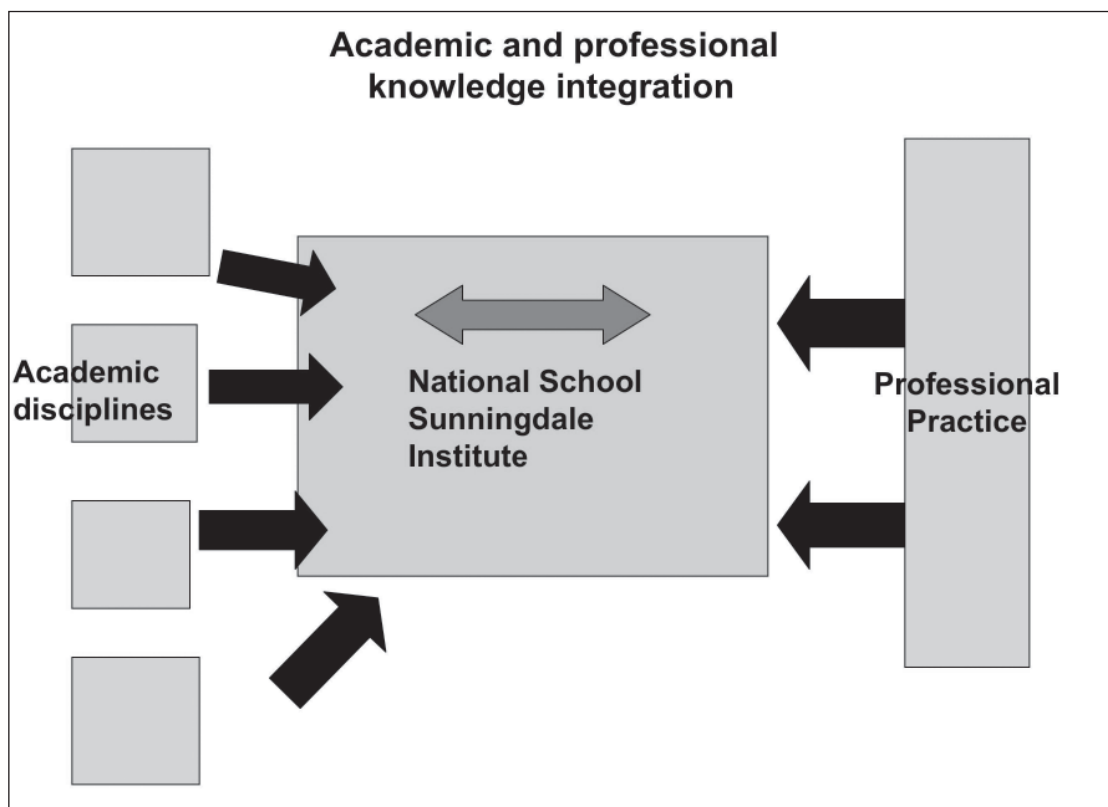
Sir Gus O'Donnell
Secretary to the Cabinet & Head of the Civil Service
October 2006

Supported by Cabinet Secretary and Head of the Civil Service Sir Gus O'Donnell, the programme is open to civil servants with a mandate to lead change within their organisations – for example through Capability Reviews, shared services or capability building programmes. The National School is part-funding the programme for civil servants in these roles as part of its strategy for providing organisational development support to government. It is also developing its own capacity by sponsoring 12 of its faculty on the first programme.

Strengthening intellectual capacity

One approach to strengthening intellectual capacity would have been to recruit significant numbers of academics to the faculty which would have been expensive and impossible to achieve within existing headcount constraints. Alternatively we could have tried to develop the National School along the lines of a University model which would have been a long term aspiration with a high risk of failure in an increasingly competitive sector. Doing so would also risk losing the practitioner focus which has for long been its institutional strength. The National School adds value to the thought leadership agenda by integrating academic and professional knowledge and by occupying the unique space between the segmented disciplines of academia and professional practice.

Figure 3 – Academic and Professional Knowledge Integration.



The UK is blessed with good universities and business schools, which are home to fine academics and practitioners. Unlike in some countries these are not all to be found within one or two key organisations. Our approach to building our intellectual capacity has therefore been to engage the best available resource from across academia in the shape of the Sunningdale Institute.

Chaired by Professor Cary Cooper of the Lancaster University Management School, and directed by the National School's Professor Sue Richards, the Institute brings together leading academics and industry figures to advise leaders and organisations on public service operational and delivery issues. A 'virtual academy', the Institute offers knowledge exchange, consultancy, and learning and development activities for senior public servants – both proactively, and on request. Fellows are available to give briefings, lead research projects, participate in high-level consultancy interventions, and facilitate dialogue on particular topics of importance to government.

Fellows are appointed for their authority and expertise in the areas of public leadership and governance, organisation and system design, connecting strategy and operations, and fostering innovation. The group includes people who have run large businesses and public service organisations, as well as leading academics, and are selected against criteria developed by a working group of senior academics from leading UK business schools and experienced practitioners.

The Sunningdale Institute provides a unique forum where leading academics can work together away from their respective institutional perspectives allowing them to "play for the National team" on some of the tough questions facing government. It is already making a contribution to the thought leadership of the National School in a number of ways:

- Briefing for top officials
- Leadership development for junior ministers
- Expert papers on key themes emerging from capability reviews

- Action research of business models
- A formal evaluation of the capability review process

Some examples of work undertaken by Sunningdale Institute Fellows during 2006-2007:-

- The MOD undertook a review into how it should best identify, organize, direct and exploit its intellectual capital. Two Institute Fellows advised on the design of the methodology and peer-reviewed the final report.

“This was a new approach for MOD and we felt that we needed external advice – beyond that which could be obtained from academic and practitioner literature to guide us through this complex area. We approached the Sunningdale Institute to assist us as we wanted advice rather than consultants to do the whole project for us. Our team within MOD learned a lot from the two Fellows, with the result that the review was more robust than could have been achieved by relying solely on MOD expertise”.

Ministry of Defence (MOD), client of the Sunningdale Institute

- Office of Government Commerce (OGC) engaged a Fellow to contribute an impartial, strategic perspective to a report to OGC’s Minister on the reform of the government procurement service.

“The Professor’s participation was invaluable. Their broad and deep experience of strategy and change management was evident in both their ability to draw out the key issues during our meetings, as well as in the detailed, specific comments provided in writing. As a result we were able to bring a focus to the report very quickly, with confidence that the overall approach was credible. The service we received from the Institute’s team, from helping us to define our requirement at the outset through to closure, was very smooth, swift and easy. I would absolutely recommend the Institute to anyone seeking an incredibly experienced and knowledgeable ‘critical friend’

Office of Government Commerce, client of the Sunningdale Institute

- Four Fellows, Professor David Tranfield from Cranfield School of Management, David Macleod from Towers Perrin, Professor Patrick Barwise from London Business School, Professor Howard Thomas from Warwick Business School and Professor Sue Richards the Director of the Sunningdale Institute were commissioned by the Prime Minister’s Delivery Unit (PMDU) to evaluate the effectiveness of the Capability Review programme against its identified aims.
- Professor Andy Neely from the Cranfield School of Management and Professor Rick Delbridge from Cardiff Business School facilitate the Effective Business Models Network. The network is made up of representatives from 15 different departments each nominated by their Permanent Secretary and supported by a small team within their department. The Network adopts the principles of action research and is focussed on responding to challenges highlighted as common issues in the Departmental Capability Reviews.
- Professor Jean Hartley from the Institute of Governance and Public Management, Warwick Business School was commissioned to prepare an adapted version of her Public Leadership 360 degree feedback questionnaire for ministers in central government.
- Dr Elaine Kamarck, Lecturer in Public Policy, Kennedy School of Government, Harvard University was a keynote speaker at the 21st Century Public Service Reform Conference in June 2006.
- Professor Mark Moore, Hauser Professor and Director of the Hauser Center for Non-Profit Organizations, Kennedy School of Government, Harvard University ran a joint programme for Permanent Secretaries from Northern Ireland and the Republic of Ireland on Public Value.

Sunningdale Institute Activity 2006-2007

Number of Commissions for Consultancy Projects	6
Number of Events run by Sunningdale Institute Fellows	28
Number of People attending Sunningdale Institute Events	837

Refreshing our Associate Faculty

To give the National School the capacity to respond to demand and deliver against the challenging range of requirements as shown in figure 1 (page 6), the National School works with a pool of associates. At no fixed cost they plug knowledge and skills gaps with current and relevant experience and the latest thinking. In late 2006 we conducted a major exercise to appoint 150 new associates to provide expertise in a range of areas central to delivering the strategy of the National School including leadership, change, and organisational development. This new intake – comprising individuals and niche providers of development based across the UK – brings the total number of National School associates to over 400.

Partnerships with universities and business schools

“...the School will build relationships with academic institutions, professional bodies and business schools to ensure that public servants have access to the best possible training and development”

Sir Andrew Turnbull, Cabinet Secretary and Head of the Civil Service speaking at the launch of the National School of Government – June 2005

A key strand to developing our capacity and delivering our strategy has been the development of our relationships with universities and business schools. They work in a number of ways. Their rigour and resource ensures that, increasingly, National School development provision is academically endorsed and accredited, and makes new thinking and methods available to civil servants. In return, we offer partner institutions a contextualisation of their work through our strategic relationships with government departments, and proximity to the reforming centre.

We have developed strong links with Warwick University, with whom we deliver a Masters of Public Administration (MPA) programme. We also work with Henley Management College with whom we are developing a distance learning MPA and who contribute to our Top Management Programme. Other partner UK institutions include Kingston University with whom we have developed a Masters programme in HR and Change, Ashridge Business School with whom we have designed and run a cross public service leadership programme, and Birmingham University who we commissioned to design and run the Masters in Organisational Development programme.

Whilst we typically initiate partnerships with universities and business schools in line with broad government need, we have also sourced academic partners for individual clients – our work with the subject-leading Leeds Metropolitan University on behalf of the Government Communications Network (GCN) being a prime example.

Work with management consultancies

Partnership work with private sector consultancies with government and public sector interests and expertise has seen collaboration on publishing and events. Together, the National School and Cap Gemini publish ‘Transformation’, which is devoted to new thinking in the public sector, whilst Ernst & Young sponsored the 2007 Public Services Reform conference.

Working with UK public sector academies and international institutions

"I want to see much better exchange of knowledge and skills between sectors and across the public service. The National School should take on a role of promoting closer working with its counterparts in other sectors..."

Sir Andrew Turnbull, Cabinet Secretary and Head of the Civil Service speaking at the launch of the National School of Government – June 2005

Government has signalled a move away from a centrally-driven approach to public service reform to one designed "to try to make change self-sustaining" through a system with "in-built flexibility and capacity to push forward."

In short, whilst the centre will continue to set stretching targets for public services, it is the services themselves – and by implication public service leaders – who will increasingly decide on how best to serve communities and individuals.

This shift in emphasis is reflected in the work of the new Public Sector Leadership Alliance, chaired by the National School and involving the heads of UK public sector academies including the Improvement & Development Agency (IdeA), the National College of School Leadership and the NHS Institute. Together, we've been looking to establish how we can help each other build the leadership capability to deliver 'self-improving' organisations, and to make efficiencies along the way. Discussions have aroused interest in increasing supply side capacity with a view to driving down cost, with a detailed study planned for 2007-08.

"In an increasingly global world where the quality of government is a key factor in a country's success, I have asked the School to broaden its role to ensure that it supports our international priorities and that the knowledge gained from its many international connections is fed back into our thinking within the Home Civil Service. We will maintain our reputation for helping countries in transition raise their standards of governance"

Sir Andrew Turnbull, Cabinet Secretary and Head of the Civil Service speaking at the launch of the National School of Government – June 2005

The National School actively participates in the international public service reform agenda and this was reflected this year when David Spencer was appointed as the UK Government's representative on the Board of the Commonwealth Association for Public Administration and Management (CAPAM). Through shared learning with international counterparts such as the Canada School of Public Service (CSPS), the Australia & New Zealand School of Government (ANZSOG) and the Civil Service College in Singapore, the National School aims to make a high-quality and sustainable contribution to good governance internationally.

The National School's unique position at the centre of UK government provides a window into good practice and experience in public administration. The School is the natural first port of call for many international administrations seeking to both access that knowledge and experience and who want to build capacity through developing their organisations and staff. Over more than 20 years the National School has built a strong international reputation working with over 80 government administrations throughout the world:

- helping to build capability in governance and administrative reform through involvement in international capacity building projects
- designing and delivering development programmes for international delegate groups, either in the UK or overseas
- delivering consultancy services to international government bodies

The National School works world-wide and our consultants have a range of experience aligned to supporting the UK Government's international priorities including:

Transition countries

In Central and Eastern Europe, the Balkans and the former Soviet Union, we work to help develop the capacities of public administrations to align themselves with European standards and to meet demands arising from transition to market economies and pluralist democracies.

Developing countries

In Africa, Asia and the Caribbean, we focus on improving the capacity of governments to develop and implement policies that contribute to the human rights and poverty alleviation agendas and deliver more effective and efficient services to citizens.

Post conflict countries

We have substantial experience of helping new administrations in post conflict situations including the Balkans, Afghanistan and Sierra Leone. The National School is currently working on a DFID funded project to help to build the capacity of the Ministry of Interior in Iraq.

Value for money

Government organisations do not work in a vacuum. In the field of organisational development and training they face increasing pressures to show, on the one hand, that the development services they buy have had the desired impact and, on the other, that they have made good use of taxpayers money.

In turn, this requires the National School to make available resources that specifically meet corporate and departmental priorities, are of demonstrably high quality, and offer good value. Often this means that the National School – either by itself or in tandem with a partner organisation – will act as provider. On other occasions, when a requirement can be better met externally, the National School will act as a broker, and will look to guarantee high quality work and an appropriate contract at a good price.

Quality of provision

One of the benefits of working widely with central government organisations with responsibilities for skills and competencies, academic institutions and professional bodies, is that quality of provision becomes a central part of National School activity – whether or not it involves the National School as a provider of training or organisational development.

More specifically, all National School mainstream programmes are subject to a careful and rigorous quality assurance process – extended in 2006 to meet exacting new standards reflecting the expectations of our clients and stakeholders, and consistent with industry best practice. A similar process has been implemented for programmes designed to client specification, with the addition of an overseeing Quality Assurance panel involving client representation, and we also use clients' own processes as requested.

Despite the National School's strategic shift towards dealing with organisations in addition to individuals, and rise in the proportion of its work conducted on a business-to-business basis, this does not preclude the need for training courses such as those traditionally run at Sunningdale Park. The National School provides high quality programmes aligned to Professional Skills for Government criteria that represent excellent value for money. In 2006-07 customer satisfaction ratings – submitted at the end of training programmes – reached a record high of 93% of box one and two ratings (in a six box scale). A new National School evaluation strategy designed to establish the impact of training in the workplace will be complete by Summer 2007.

A low fixed-cost

Delivering the National School strategy – configured in response to the stated needs of Civil Service leaders – has required us to broaden the range of what we can offer Departments, whilst responding to the need for efficiencies.

The National School's organisational model seeks to minimise the burden to both stakeholder and client on the one hand, and the taxpayer on the other.

- Leasing back Sunningdale Park training facilities from De Vere Venues as part of our PPP deal means we pay only for what we need, and has encouraged more regional work, and work on client premises – which is more cost-effective.
- Working with a smaller core faculty allied to an increased associate pool is our cost-effective response to fluctuating client demand.
- Establishing the Sunningdale Institute as a virtual academy means that Departments can access world-class expertise at a reduced cost, and on a 'pay-as-you-go' basis.

We are confident that the resource we now have in place has the capacity and expertise to meet the development challenges of government reform cost-effectively – both now and in the future.

The Future

The progress we have made against the strategy endorsed by the Permanent Secretaries before our launch in June 2005 would simply not have been possible without their commitment to funding the transition. Stakeholders want the National School to be the best in the world and renowned for the quality of its leadership programmes, professional development and to make an important contribution to thought leadership, innovation and public sector reform both in the UK and internationally. As the National School enters the last year of its three years of transition funding, the real challenge for 2007-2008 is to develop a sustainable business model that will allow it to continue to develop the new areas of work that can achieve this ambition. It is clear that the business models of its institutional predecessors which ranged from being entirely funded centrally to operating on a full cost recovery regime with no investment are not the answer. As is increasingly the case in government, improvement is achieved by recognising and managing the complexity.

Towards a new business model

Broadly speaking, the National School undertakes three areas of activity:

- **Open/bespoke programmes and consultancy** – historically the mainstay of the organisation's work has for a number of years been run on a full cost recovery basis. The organisation's lack of financial flexibility means it is currently unable to accumulate funds to re-invest in product development where there is not a return in-year. The primary financial target of breaking even at the end of the financial year with no scope to build a reserve or carry a surplus over to the New Year is a fundamental barrier to achieving the National School's strategic aspirations. Without future funding, the National School will need much greater financial flexibility to support this area of activity. This will be a key strand of building a sustainable business model for the National School during 2007-2008.
- **The Sunningdale Institute (Fellows, Thought Leadership, Innovation Hub, the Virtual School etc.)** – this area of activity which is fundamental to the aspiration of the National School being world class is currently being developed with the use of transition funding; without funding this important area of work will stop. A further strand to building a sustainable business model will be to explore a funding stream that will support and take forward the excellent work that has begun.
- **Corporate Leadership Programmes** – From the National School's inception, and the subsequent work of the Tomorrow's Leaders Group a sub-group of the Permanent Secretaries this area of work has been considered crucial in raising the standard of leadership in government by providing world class leadership development and some much needed corporate glue. As these programmes are increasingly mandated for Senior Civil Servants at key transition stages in their careers, the programmes will need to be funded differently to the National School's portfolio of open programmes. Agreeing the mechanism for this is yet another area that will need to be addressed during 2007-2008 in building a sustainable business model.

"We will not allow our key training and development provider to become divorced from the corporate development aims of the Civil Service. The School will therefore have a specific role in ensuring that we invest in high quality development of current and future leaders of the Civil Service"

Sir Andrew Turnbull, Cabinet Secretary and Head of the Civil Service speaking at the launch of the National School of Government – June 2005

The National School will need to be innovative in the way that it addresses the needs of these three different areas of activity. What is already emerging is that the business model will be more of a mixed economy rather than a "one size fits all" approach. The National School's new status as a non-ministerial department should help it to realise the freedoms that it needs to construct a model that will allow it to deliver its strategic aspirations.

The development of a business model that will allow the National School to continue to deliver its mandate after the transition funding ends at the end of March 2008 is the organisational priority for 2007-2008. Despite the inevitable challenge that this presents, both the National School Board and the Management Team are committed to the task. It is also recognised that the work that has been achieved to date provides an excellent foundation going forward as does the support that the National School is getting.

"But the one thing that is amazing about Britain, and we shouldn't under-estimate this, is no matter what people say about institutions that have lasted for 500 years, you know they say the first 500 years of any institution's history in Britain is always the most difficult, such is the long lasting nature of our institutions, but each of our institutions has evolved and they do change, and they do respond to changing times, and we have shown a remarkable flexibility and ability to evolve to meet changing needs. And that is why I have got nothing but praise for the civil service and I believe that we can respond to all challenges in the future, I believe this National School of Government can make a difference, I believe a conference like this can make a difference".

The Rt. Hon. Gordon Brown MP, 27 March 2007, National School of Government's Public Service Reform Conference:

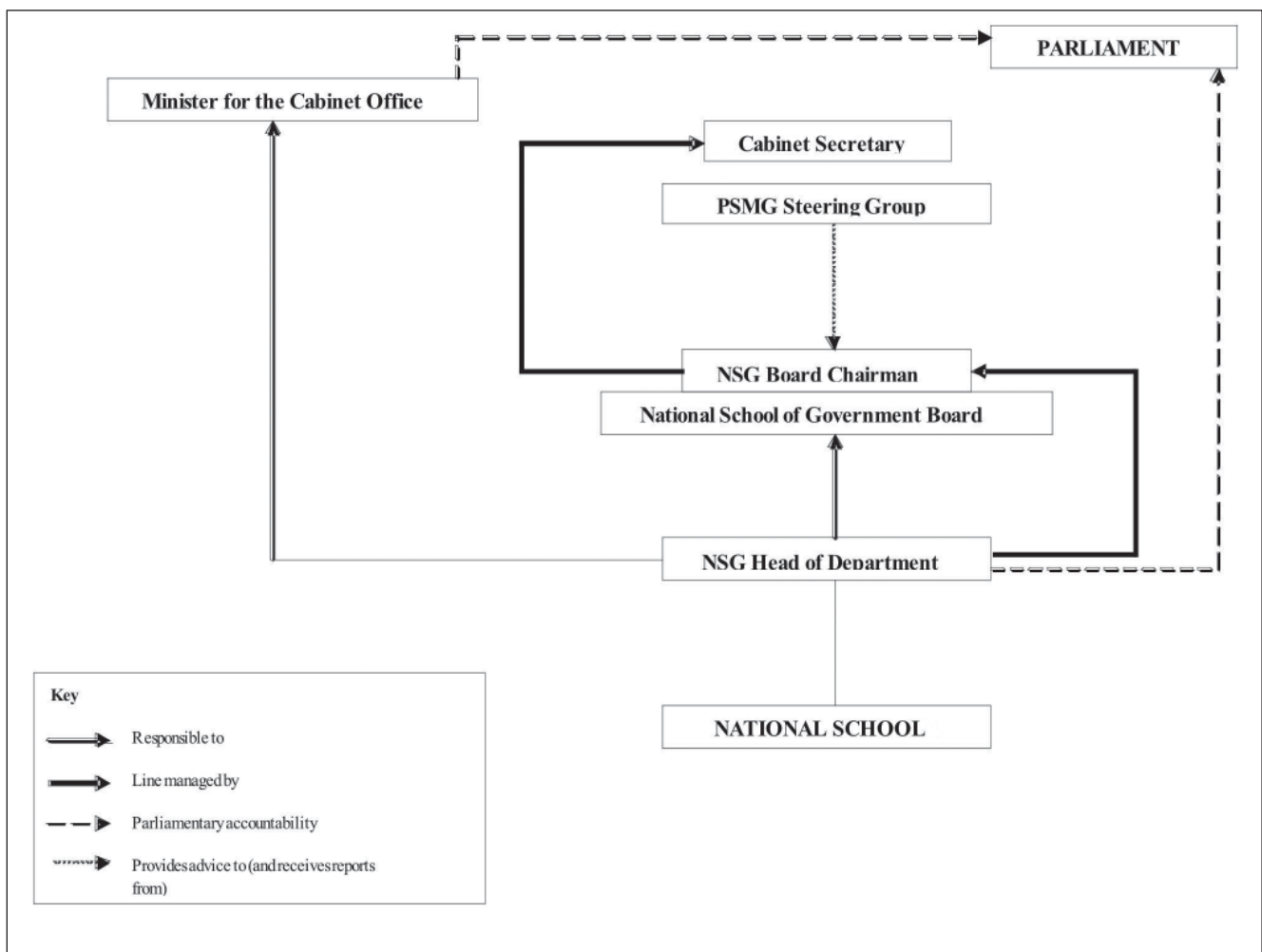
Governance

In separating the National School of Government from the Cabinet Office and establishing it as a new department in its own right, Sir Gus O’Donnell said that he wanted this new status to reflect wider ownership and accountability across the civil service and beyond. The National School of Government Board which comprises a strong representation of Permanent Secretaries and senior leaders from across Whitehall and the wider public and third sectors was established with this in mind.

Minister for the Cabinet Office

Although the National School is ‘non-ministerial’ in the sense that the Minister does not normally need to become involved in the day-to-day management of the National School, the Minister for the Cabinet Office is accountable to Parliament for the department. The Minister will approve the National School’s business plans and annual reports and will ensure that the organisation is operating effectively through regular meetings with the Head of Department. In 2006/07 the Minister for the Cabinet Office was the Rt Hon Hilary Armstrong MP. From 28 June the Minister is the Rt Hon Ed Miliband MP. Gillian Merron MP, Parliamentary Secretary and Minister for the East Midlands, Cabinet Office, handles National School of Government issues.

Figure 4 – Governance Structure



Membership of the National School of Government Board

Sir Brian Bender (Chair)	Permanent Secretary, Department for Business, Enterprise and Regulatory Reform
Helen Ghosh	Permanent Secretary, Department for Environment, Food and Rural Affairs
Peter Housden	Permanent Secretary, Department for Communities and Local Government
Sir Ian Andrews	Second Permanent Secretary, Ministry of Defence
Sir John Elvidge	Permanent Secretary, Scottish Executive
Dame Sue Street	formerly Permanent Secretary and now Strategic Adviser to Deloitte
Jocelyne Bourgon	President Emeritus, Canada School of Public Service
Professor Gillian Stamp	Director, Brunel Institute of Organisation and Social Studies BLOSS
Sir John Harman	Chairman of the Environment Agency and of the Warwick University Institute of Governance and Public Management
Lord Victor Adebawale	Chief Executive, Turning Point
Gill Rider	Director General, Civil Service Capability Group, Cabinet Office
David Spencer	Principal and Chief Executive, National School of Government

The change of status to non-ministerial department also required a change to the corporate management arrangements for the National School. In line with the corporate governance arrangements for central Government Departments a new Executive Management Board (EMB) has been set up for the Department. The Executive Management Board will meet quarterly.

Membership of the National School of Government Executive Management Board

David Spencer (Chair)	Principal and Chief Executive
Elaine Lorimer	Head of Operations and Corporate Services
Bob MacLennan	Head of Strategy, Governance and External Relations
Professor Sue Richards	Head of Strategic Capability
Vacant	Non executive (chair of the Audit And Risk Committee)
Vacant	Non executive (HRD)
Vacant	Non executive (wider public service)

Co-opted member

Mike Timmis	Head of Finance, Planning & Risk
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Secretariat

Mike Pearce	Secretary of the Board
Jonathan Keeling	Secretariat

An Audit and Risk Committee (ARC) and Remuneration Committee are being established, reporting to the EMB. Each will be chaired by a non executive member when appointed.

The Corporate Management Team (CMT) is a term associated with the previous status of the National School as part of a management unit within Cabinet Office. As a further measure towards establishing our new identity, the management team is now called the Executive Committee (ExCom), which will meet monthly. Membership of ExCom is set out below.

Membership of the National School of Government Executive Committee

David Spencer (Chair)	Principal and Chief Executive
Eleanor Goodison	Head of Professions Development
Jane Grant	Head of Individual Development
Elaine Lorimer	Head of Operations and Corporate Services
Bob MacLennan	Head of Strategy, Governance and External Relations
Professor Sue Richards	Head of Strategic Capability
Robin Ryde	Head of Strategic Leadership
Mike Timmis	Head of Finance, Planning & Risk
Janet Waters	Head of Organisational Capability
Rob Reynolds	Head of Marketing and Communications

Secretariat

Mike Pearce	Secretary of the Committee
Jonathan Keeling	Secretariat

Our people and facilities

This has been a year of change for the National School with the main focus of activity for the HR team being the transition to non ministerial departmental status.

This new status provides the School with greater autonomy to determine HR policy and procedures for its staff and in future years will mean that the School can develop pay and terms and conditions for our staff that are appropriate to our business need in the context of the civil service.

We have agreed for the first two years of being an NMD that we will continue to align ourselves with the Cabinet Office for pay and conditions to provide a smooth transition and certainty to our staff.

In addition, we negotiated with the Cabinet Office and relevant contractors to continue to benefit from the contracts that the Cabinet Office has in place for payroll and other HR services such as for counselling and medical assessment.

As part of the separation from the Cabinet Office, the National School inherited a portion of the Cabinet Office efficiency target under the Gershon initiative. This has meant that there has been a constant pressure to control the headcount of the School. There has been tension between the need to reduce the headcount and the need to ensure the School has enough people to generate sufficient income to break even and deliver the new strategic priorities. This has meant that managing vacancies and recruitment has attracted significant interest from the senior management team.

The School encourages its staff to have a good work life balance and as a result many of our staff are on flexible work patterns to suit their domestic responsibilities.

We have a diverse population which reflects the demographics of the areas in which our four locations operate. Further details of our population are detailed below.

Staff Numbers by Grade:

Band	Numbers
SCS 2	1
SCS 1	12
A	88
B2	23
B1	54
C	89

Staff Numbers by Gender:

Gender	Numbers
Females	170
Males	97

Staff Numbers by Working Pattern:

Working Pattern	Numbers
Full Time	196
Part Time	61
Flexible Working Pattern	10

Staff Numbers by Ethnic Origin:

Ethnic Origin	Numbers
White	215
Non-White	12
Not Known	40

We have 6 staff who have self declared a disability under the terms of the Disability Discrimination Act.

The National School of Government is entirely committed to the core principles of fair and open competition for recruitment and selection on merit as laid down by the Civil Service Commissioners. Our systems ensure that we deliver this exacting standard and they are all subject to audit.

The number of schemes involving external recruitment during 2006-07:

Grade	No of Schemes	Numbers Applying			Numbers Successful		
		Total	Males	Females	Total	Males	Females
A	2	66	40	26	3	1	2
B2	2	11	2	9	1	0	1
B1	1	14	2	12	1	0	1
C	1	6	3	3	1	0	1

In preparation for the transition to NMD status and to move further towards aligning the department to its strategic direction, there was an internal reorganisation which created a team focussed on OD and single client work with departments and a team focussing on professions development and large scale strategic events. The senior management team was reorganised as a result and two new appointments were made to head up Strategy, Governance and External Relations and Corporate Services and Operations.

Investors in People

As part of our new status it was important that we continued to have liP accreditation. The School places a high emphasis on the nurturing and training and development of our staff. It was, therefore, with considerable pride that we were successful in becoming one of the first government departments to achieve liP accreditation under the new liP standard.

The Investors in People (liP) Standard provides a framework with which organisations can identify and achieve appropriate business improvements.

The National School inspection report confirmed that inspectors were "impressed" with what had been achieved and that recent changes represented a "significant improvement".

People Strategy

The combination of the new status for the School and the new business strategy has put sharp focus on the need for a new people strategy. Work has commenced on this with a series of workstreams being planned for 2007/08.

What is clear is that the success of the School depends critically on the quality of its people and so much emphasis will be put on improving engagement, sharing ideas and lifting the bar on the application of our performance management system and learning and development plan to strive to constantly improve. Already we have taken forward work on developing behavioural indicators for our staff through a series of highly participative workshops covering all grades. We have also invested in 9 of our teaching staff through an OD masters programme with Birmingham University in partnership with the Tavistock Institute.

A further priority this year has been to work to improve relationships with our trade unions. This has been particularly important during this period of change of status and with the continued pressure of headcount restrictions. There is now a programme of regular monthly meetings and much closer co-operation and collaboration on key issues of mutual interest for our staff.

As part of our need to drive efficiencies into the cost of what we deliver and also to improve our capacity to deliver, the School has implemented a major programme of refreshing our Associates faculty. Our annual spend on Associates has been in recent years around £5million and so it was important that we ensured we had robust systems in place for engaging Associates and for monitoring spend in this area.

The Associates faculty now stands at 400 with 150 new Associates registered with us. An open day was held in November with 200 Associates attending and an electronic register of Associates has been devised. In addition new terms of business and consistent processes have been put in place which will improve our access to management information as well as providing greater transparency around the quality of what is delivered. More work had been identified to continue to enhance the quality of information held on our register which will take place in 2007/08.

Our facilities

The School's main accommodation is at Sunningdale Park where it has a residential training facility and is where the senior management team and most of the staff are based. It also has a training centre and office accommodation at Belgrave Road in London and office accommodation at Admiralty Arch in London and in Edinburgh.

The site at Sunningdale is leased from the School under a 30 year public private partnership arrangement which has been in place since 2002. This arrangement provides the School with flexibility in our use of the site and provides the private sector partner with the freedom to fill spare capacity. De Vere Venues took over the contract from Initial Style Conferences in 2006 and in the last year the company has continued to make substantial investment in the site, in the region of £2million, including work commencing on the upgrading of Pepys restaurant and the refurbishment of 114 bedrooms.

Quality of experience of our customers is important to the School and so the contract with De Vere is based on an outcome specification, with payment being based on a target for quality satisfaction. Students are asked to provide feedback on the quality of their total experience of the site during their stay including accommodation, food and service and this is used to monitor performance. A close working relationship is maintained with the De Vere management on site and at a regional level to ensure that the School and its customers continue to receive the highest quality of services from the company.

Student numbers for Sunningdale 2006-07	8,379
Facilities Quality score	85%

A similar approach is adopted at Belgrave Road, where students are asked to provide feedback on the facilities provided there.

Student numbers for Belgrave Road 2006-07	5,615
Facilities Quality score	91%

The accommodation in London and Edinburgh is leased by the School and work is underway to review our London presence to ensure that we are able to continue to meet the demands of our business priorities and that a high quality of provision to our customers is maintained.

Sustainability

We have inaugurated a National School of Government/ De Vere partnership to review our practices and procedures in relation to the environment. All new initiatives in terms of purchases as part of the PFI involve sustainability as a major consideration in the decision making process. Examples are the introduction of Fair Trade Coffee; recycle bins in all conference rooms, the use of low energy light bulbs, heating controls to conserve energy in offices and classrooms and rationing the provision of air cooling to only those areas where it is essential. Investigations continue over alternative means of generating energy, more use of compositing in relation to grounds maintenance and recycling light bulbs, batteries and glass.

Pensions

Present and past employees of the National School are covered by the Provisions of the Principal Civil Service Pension Scheme (PCSPS). The financial status of the scheme is reported in a separate PCSPS scheme statement. The accounting policy adopted for pension costs is set out at note 1.10 to the accounts. Details of senior staff pension entitlements are set out in the Remuneration Report.

Public interest

The National School maintains a Register of Interests with details of company directorships and other significant interests held by Board Members. Copies of the register are available on request.

Policy on payment of suppliers

The National School is committed to the Better Payment Practice Code on prompt payment and aims to pay all undisputed invoices within the terms of the contract, usually 30 days of receipt of a valid invoice. During the year the Department paid 97.3% of invoices within 30 days (2005-06: 98.9%).

The Department paid £nil (2005-06: £nil) interest charges levied on late payment of invoices for the year ended 31 March 2007.

Basis of accounts

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

Auditors

The financial statements are audited by the Comptroller and Auditor General, who is appointed under statute and reports to Parliament on the audit examination. Auditors' remuneration and expenses are disclosed at Note 10 to the accounts. No payments were made to the Auditors for any non-audit work in 2006/07.

Management Commentary

Departmental reporting cycle

For much of the period covered by this report, the National School was a part of the Corporate Development Group in the Cabinet Office and its work was embraced by the Cabinet Office reporting cycle including the Cabinet Office Autumn Report. The National School was included in the Winter Supplementary Supply Estimates with a view to establishing it as a new department in January 2007. The National School also appeared in the Spring Supplementary Supply Estimates in order to transfer remaining investment funding from the Cabinet Office to the new department.

The National School will produce a five-year Strategic Plan and Annual Business Plan, approved by the Minister for the Cabinet Office, these are the chief instruments by which it sets and plans to meet its objectives and targets. The Strategic Plan is normally produced every three years, covering a five year period and is reviewed annually. The Annual Business Plan sets out plans and targets for the immediately following year in more detail.

The National School will produce an Annual Report and Accounts under the terms of an *Accounts Direction* issued by the Treasury. The Accounts will be prepared in accordance with the *Government Financial Report 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 this is meaningful and appropriate to the public sector. The Annual Report will show the National School's performance against its published targets. The Annual Report and audited Resource Accounts will be laid before Parliament before the Summer Recess each year.

Departmental aims 2006-07

The target we were set by Cabinet Office during this transitional year was to keep within the Estimate funding provided by Parliament. This target was achieved and details are shown at the 'Performance against Parliamentary Control Totals' section below.

Targets and objectives for the National School as a separate department are under development and covered in pages 8 – 15.

Financial review

The majority of the National School's funding is obtained by charging for the training and development services and consultancy services provided to external customers. The fees and charges for services are provided on a full-cost basis. Operating income in 2006/07 was £24.2m net of VAT.

In July 2005, the Civil Service Management Board agreed that in order for the National School of Government to develop capacity in the longer term, the stakeholder departments should provide £11.8 million of funding over 3 years. In 2006/07 £3.9 million of funding was requested from departments for the year from September 2006.

The department also has some funding provided by Parliament and the department is accountable to Parliament for all its expenditure.

Performance against Parliamentary Control totals

Authority was sought in the Spring Supplementary Supply Estimate (HC 293) for a net resource requirement of £2.276 million, a net voted capital requirement of £1.271 million and a net cash requirement of £2.477 million. Final Outturn for 2006-07 recorded savings of £1.002 million against net resource, savings of £0.201 million against voted capital and a saving of £1.501 million against net cash requirement – see Figure 1 below and notes 2 and 4 to the accounts.

Net Resource

The National School of Government's actual net resource requirement in 2006-07 was £1.274 million; £1.002 million less than the Resource Departmental Expenditure approved by Parliament.

The under-spend against Resource Departmental Expenditure Limit is largely attributable to the agreement of the Civil Service Management Board in July 2005 that in order for the National School of Government to develop capacity in the longer term, the stakeholder departments should provide £11.8 million of funding over 3 years. In 2006/07 £3.9 million of funding was requested from departments for the year from September 2006. In the event, the National School did not spend all of this funding in 2006/07 leading to a surplus against the Estimate. End Year Flexibility will be requested to make the unused funding available for use by the National School in 2007/08.

Net Voted Capital

The National School of Government's capital investment in 2006-07 amounted to £1.07 million; £0.201 million less than the Capital Departmental Expenditure Limit approved by Parliament.

Net Cash Requirement

The National School of Government required cash in 2006-07 amounting to £0.976 million to finance its activities; £1.501 million less than the sum approved by Parliament owing to reduced spend on the £3.9 million of funding from other departments for the period from September 2006 as described above, reduced capital spend and a decrease in trade debtors.

Figure 1

	Estimate	Outturn	Variance Saving/(Excess)
	£ million	£million	£ million
Resource Departmental Expenditure Limit – RDEL	2.276	1.274	1.002
Net Resource	2.276	1.274	1.002
Capital Departmental Expenditure Limit – CDEL	1.271	1.070	0.201
Net Voted Capital	1.271	1.070	0.201
Accruals Adjustments	1.070	1.368	(0.298)
Net Cash Requirement	2.477	0.976	1.501

Figure 2

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	2006-07 £'000
Net Resource Outturn (Estimates)	1,274
<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	–
Other adjustments	–
Net Operating Cost (Accounts)	1,274
<i>Adjustments to remove:</i>	
Capital grants to local authorities	–
Capital grants financed from the Capital Modernisation Fund	–
European Union Income and related adjustments	–
<i>Adjustments to additionally include:</i>	
other Consolidated Fund Extra Receipts	–
resource consumption of non departmental public bodies	–
unallocated resource provision	–
Other adjustments	–
Resource Budget Outturn (Budget)	
<i>of which</i>	
Departmental Expenditure Limit (DEL)	1,274
Annually Managed Expenditure (AME)	–

Remuneration Report

Remuneration of the National School of Government Board

Remuneration Policy

The governance arrangements put in place for the National School of Government as a non-ministerial department included the creation of a Board to oversee the work of the Department. Members of the Board were agreed by the Cabinet Secretary. Terms and conditions including the length of appointment have not yet been agreed and no member of the Board received any remuneration or expenses in 2006/07. The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The pay and performance management systems are similar and common across all government departments. Pay awards are in two parts: base pay progression (performance based on a relative assessment three tranche approach against individual objectives and Cabinet Office key competencies) and non-consolidated bonuses to reward high performance. The size of awards are based on recommendations from the Review Body on Senior Salaries and in 2006-07 bonuses paid to senior civil servants in the National School of Government ranged from £2,000 – £9,000.

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

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

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

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

Service Contracts

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

Officials covered by this report hold appointments, all of which are open-ended until they reach the normal retiring age of 60 except David Spencer who is on a fixed term appointment from 26 April 2004 to 25 April 2009. The notice period for David Spencer to terminate his contract is 3 months. Sue Richards is on secondment from the University of Birmingham from June 2005 for 3 years. Her salary is reimbursed by the National School.

Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. In accordance with the Civil Service Management Code, notice for compulsory termination of employment is six months. Notice for resignation at senior civil service level is three months.

Salary and pension entitlements

Before January 2007, the National School of Government was part of the Corporate Development Group of Cabinet Office. Salary and pension entitlement details for the senior staff in Cabinet Office for that period are included in the Cabinet Office Annual Report and Resource Accounts 2006-07. On becoming a non ministerial department from January 2007, the National School of Government has established an Executive Management Board which will include three non executive members still to be appointed.

A. Remuneration

The following table provides audited details of the remuneration of the National School's Executive Management Board as at 31 March 2007:

Senior Management	2006-07		2005-06	
Name	Salary £'000	Benefits in kind	Salary £'000	Benefits in kind
David Spencer	110-115	-	110-115	-
Elaine Lorimer <i>(from 6 November 2006)</i>	30-35 (75-80 FYE)	-	n/a	-
Bob MacLennan <i>(from 29 January 2007)</i>	15-20 (60-65 FYE)	-	n/a	-
Sue Richards	85-90	-	80-85	-
Mike Timmis <i>(from 19 March 2007)</i>	0 – 5 (65-70 FYE)	-	n/a	-

Salary

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

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Her Majesty's Revenue and Customs as a taxable emolument.

B. Pension Benefits (Audited):

Senior Management	Real Increase in pension and lump sum at age 60	Accrued pension at age 60 at 31 March 2007 and related lump sum	CETV at 31 March 2007 or end date	CETV at 31 March 2006 or start date	Real increase in CETV	Employer Contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	£'000
David Spencer	2.5 – 5 lump sum n/a	5 – 10 lump sum n/a	99	61	33	-
Elaine Lorimer	0 – 2.5 plus 2.5-5 lump sum	10 – 15 plus 35-40 lump sum	170	156	13	-
Bob MacLennan	0 – 2.5 plus 2.5-5 lump sum	15 – 20 plus 55-60 lump sum	306	288	14	-
Sue Richards*	Information not available	Information not available	Information not available	Information not available	Information not available	Information not available
Mike Timmis	0 – 2.5 plus 0-2.5 lump sum	25 – 30 plus 80-85 lump sum	611	580	9	-

*The University of Birmingham is unable to provide Sue Richards' pension information.

Civil Service Pensions

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

Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

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

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

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

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

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

Cash Equivalent Transfer Values

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

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

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

Real increase in CETV

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

Statement on the Disclosure of Relevant Audit Information

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

David Spencer
Accounting Officer
Principal and Chief Executive of the National School of Government
19 July 2007

Statement of Accounting Officer's Responsibilities

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

In preparing the accounts, the 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 Principal and Chief Executive of the National School of Government 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 National School of Government's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

Statement on Internal Control

Scope of responsibility

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on a process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

The National School as part of Cabinet Office

Before January 2007 the National School of Government was part of Cabinet Office. The Cabinet Office had a Risk Management Framework that has been in place since the beginning of the accounting period.

The Cabinet Office continued to use the Risk Management Assessment Framework (RMAF) recommended by HM Treasury to allow a comprehensive assessment of the Cabinet Office's overall position. It has a risk management strategy that is communicated to its staff through the intranet and internal newsletters.

The Cabinet Office risk management strategy:

- is endorsed by the Accounting Officer, Board, Executive Management Group and Cabinet Office Audit and Risk Committee;
- defines the structures and responsibilities for the management and ownership of risk;
- indicates the way in which risk issues are to be identified, assessed, responded to, reduced, owned, recorded, monitored and reviewed;
- ensures common understanding of terminology used in relation to risk issues;
- defines the structures for gaining assurance about the management of risk;
- each work stream within the Groups is required to hold Risk Registers which are reviewed regularly.

The National School as a non ministerial department

From January 2007 the National School of Government became a separate non ministerial department. The department has drawn up a risk register and this has been considered by the National School of Government Board. The National School's business planning system gives a comprehensive framework for staff to design and implement products and services within the strategic framework of the department taking into account the risks inherent in providing commercial services within a competitive market.

The risk and control framework

Risk Management Framework

From January 2007, the National School of Government commenced a transition period during which the arrangements previously operating within Cabinet Office continue to apply, to the extent they remain relevant, whilst a Risk Management Framework is established that is wholly appropriate to the National School. Key features of this Framework, under each of the five capabilities in the RMAF, will be as follows:

Leadership

A new Executive Management Board was formed and will regularly discuss all major areas of risk affecting the National School. The Executive Committee (previously the Corporate Management Team) has continued as before as a management team advising me on issues including the department's risk management arrangements.

Risk strategy and policies

The National School of Government will have a risk management strategy that is clearly communicated to its staff through the intranet, internal newsletters, workshops and presentations.

The strategy:

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

People

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

Resources available to staff will include:

- the National School's business planning guidance;
- guidance on managing risk via the intranet;
- workshops on risk management offered to all Teams and Units; and
- access to expertise in the Internal Audit Service and in the Finance Unit.

Partnerships

The Department will formulate guidance on managing risk when working in partnership with other organisations.

Processes

The Risk Management Framework will specifically cover:

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

The Executive Management Board, Audit and Risk Committee, and Internal Audit Service will agree to arrangements for the regular review of the Risk Management Framework.

Other controls

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

- an annual planning round where all chargeable activities are evaluated, costed and priced. The system then links through to staffing and facilities requirement for the coming year;
- the department's business model is to maintain a high level of flexibility in resources to meet changes in business demand. This is by, for example, the use of Associates instead of directly employed staff to deliver events and the PFI contract for Sunningdale Park to transfer occupancy risk to the private sector;
- an annual budget is approved by the Executive Committee and endorsed by the Strategy Board and reviewed by them during the year, together with headcount controls;
- delegation letters issued to Deputy Directors, with supporting advice on roles and responsibilities and guidance available on the intranet;
- regular monthly business reports showing performance against both financial and non-financial targets and trends for future business. These reports are regularly monitored and actioned by the Executive Committee and managers.

Review of effectiveness

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

The individual statements of assurance that I have received from Deputy Directors have provided reasonable assurance that the systems of internal control are sound and operating effectively.

Planned improvements

We will appoint 3 non executive directors to the Executive Management Board, one of whom will chair the Audit and Risk Committee. We will appoint 3 additional external members to the Audit and Risk Committee. The Audit and Risk Committee will be fully compliant with Treasury Guidelines.

We need to embed the Risk Management, Internal Audit and Audit & Risk Committee operations into the work of the National School of Government during its first full year as a non ministerial department.

We need to continue with the progress achieved in the period under review by taking steps to ensure that good risk management techniques are firmly established as a routine element of all work in the National School of Government.

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

We will ensure that risk management has a high profile within the Department.

We have recognised the need to improve the resilience of Business Continuity Planning in the National School of Government and this will be a priority for the coming year.

There is a draft five year Departmental Plan that is being revised by the Executive Committee and which be reviewed by the Executive Management Board and the Strategy Board.

Internal Audit

Before January 2007, the National School of Government was part of the Cabinet Office and subject to review by the Cabinet Office's Internal Audit Service.

From January 2007 the National School of Government has an Internal Audit Service (IAS), which carries out its work in accordance with the Government Internal Audit Standards. The work of the Internal Audit Service will be informed by an analysis of the risk to which the department is exposed and annual internal audit plans are based on this analysis. The resultant internal audit plans will be discussed and endorsed by the department's Audit and Risk Committee and approved by me.

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

For 2006-07, IAS, on the basis of the reviews undertaken from January 2007, has provided me with limited assurance that a sound framework of governance exists.

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

The Audit and Risk Committee will be attended by representatives of the National Audit Office and will have a non-executive chair. Whilst the Executive Management Board will be responsible for the overall oversight and approach to risk management, the role of the Audit and Risk Committee will be to advise me on the adequacy of risk management, control and governance. Its formal terms of reference are expected to be "to give advice to the Accounting Officer on the adequacy of audit, risk management, control arrangements and corporate governance across the National School of Government". The Committee will formally report annually to me as the Accounting Officer with an independent opinion on the risk management process.

All the above arrangements form part of the body of work that we are taking forward in 2007/08 to establish the National School as a non ministerial department. The work to establish this framework will be complete by 31 March 2008.

David Spencer
Accounting Officer
Principal and Chief Executive of the National School of Government
19 July 2007

The National School of Government**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 National School of Government for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. 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, certain information given in the Annual Report which comprises the Chief Executive's Introduction, The National School in Context and the Management Commentary, 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

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Chief Executive's Introduction, The National School in Context and the Management Commentary, is consistent with the financial statements.

Audit 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
20 July 2007

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

Request for Resources	Note	2006-07						Net total outturn compared with Estimate: saving/ (excess)	2005-06
		Estimate			Outturn				Outturn
		£'000			£'000				£'000
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total		Net Total
1*	2	32,276	(30,000)	2,276	29,346	(28,072)	1,274	1,002	(1,521)
Total Resources	3	32,276	(30,000)	2,276	29,346	(28,072)	1,274	1,002	(1,521)

Non-Operating Cost A in A

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Request for Resources 1*: To provide a centre of excellence for learning and development in support of the strategic business priorities of Government

Net cash requirement 2006-07

	Note	2006-07			2005-06	
		£'000			£'000	
			Outturn	Net total outturn compared with Estimate: saving/ (excess)	Outturn	
Net cash requirement	4		2,477	976	1,501	-

Summary of income payable to the Consolidated Fund

	Note	Forecast 2006-07		Outturn 2006-07	
		£'000		£'000	
		Income	Receipts	Income	Receipts
Total	5	-	-	-	-

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

The notes on pages 44 to 67 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2007

	Note	2006-07 £'000	2005-06 £'000
Administration costs			
Staff costs	9	11,951	10,705
Other administration costs	10	<u>17,183</u>	<u>17,803</u>
Gross administration costs		29,134	28,508
Income	11	(27,860)	(30,029)
Net operating cost	3	<u><u>1,274</u></u>	<u><u>(1,521)</u></u>

All income and expenditure is derived from continuing operations.

The notes on pages 44 to 67 form part of these accounts.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	2006-07	2005-06
	£'000	£'000
Net gain/(loss) on revaluation of tangible fixed assets	56	509
Recognised gains/(losses) relating to the year	<u>56</u>	<u>509</u>

The notes on pages 44 to 67 form part of these accounts.

Balance Sheet

as at 31 March 2007

	Note	2006-07 £'000	2005-06 £'000
Fixed assets			
Tangible assets	12	16,660	16,705
Current assets			
Debtors	13	3,579	4,098
Cash at bank and in hand	14	<u>1,501</u>	<u>2,187</u>
		5,080	6,285
Creditors: amounts falling due within one year	15	<u>(4,899)</u>	<u>(6,530)</u>
Net current assets/(liabilities)		181	(245)
		<u>16,841</u>	<u>16,460</u>
Taxpayers' equity			
General Fund	16	14,619	14,265
Revaluation reserve	17	<u>2,222</u>	<u>2,195</u>
		<u>16,841</u>	<u>16,460</u>

David Spencer
Accounting Officer
Principal and Chief Executive of The National School of Government
19 July 2007

The notes on pages 44 to 67 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2007

		2006-07	2005-06
	Note	£'000	£'000
Net cash inflow from operating activities	18(a)	94	2,443
Capital expenditure and financial investment	18(b)	(1,070)	(1,317)
Payment of amount due to Cabinet Office in respect of Consolidated Fund	18(e)	(2,187)	-
Financing	18(d)	2,477	-
(Decrease)/Increase in cash	18(e)	(686)	1,126

The notes on pages 44 to 67 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

	2006-07			2005-06		
	£'000			£'000		
Aim:	Gross	Income	Net	Gross	Income	Net
Objective 1	29,134	(27,860)	1,274	28,508	(30,029)	(1,521)
Net Operating Costs	29,134	(27,860)	1,274	28,508	(30,029)	(1,521)

The Department's objective was as follows:

Objective 1 – To provide a centre of excellence for learning and development in support of the strategic business priorities of Government

The notes on pages 44 to 67 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 2006–07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

1.1. Accounting convention

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

1.2. Tangible fixed assets

Fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £2,500 is capitalised. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition.

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

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

1.3. Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction and residual interests in PFI contract assets are not depreciated until the asset is brought into use or reverts to the Department respectively. No depreciation is provided on freehold land as it has an unlimited useful life.

Asset lives are normally in the following ranges:

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

1.4. Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,500 or more is incurred. Where reliable evidence of market value cannot be obtained, these are not re-valued. Software licences are amortised over periods ranging from 3 to 5 years, being the useful economic life.

1.5. Stocks

There are no material holdings of stocks.

1.6. Operating income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges for services provided on a full-cost basis to external customers. Operating income is stated net of VAT.

1.7. Administration and programme expenditure

The Department does not have any programme expenditure

1.8. Capital charge

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

1.9. Foreign exchange

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

1.10. Pensions

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

1.11. Leases

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

1.12. Private Finance Initiative (PFI) transactions

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

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

1.13. Provisions

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

1.14. Contingent liabilities

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

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

1.15. Value Added Tax

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

1.16. Third party assets

The National School of Government did not hold funds on behalf of any other parties during the year.

1.17. Corresponding amounts

The National School of Government became a non ministerial department on 1 January 2007. Before that date it was part of the Cabinet Office.

This transfer has been accounted for as a business combination using merger accounting principles in accordance with the *FReM*. Accordingly, the results and cash flows related to the National School of Government have been stated as if it had been a separate entity for the whole accounting period. Prior year comparatives have also been included for the Department.

2. Analysis of net resource outturn by section

	2006-07						2005-06		
	Outturn £'000						Estimate £'000		£'000
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior- year outturn
Request for resources 1:									
<i>Central Government Spending:</i>									
National School of Government	29,346	-	-	29,346	(28,072)	1,274	2,276	1,002	(1,521)
Resource Outturn	29,346	-	-	29,346	(28,072)	1,274	2,276	1,002	(1,521)
Resource Outturn against Resource Departmental Expenditure Limit	29,346	-	-	29,346	(28,072)	1,274	2,276	1,002	(1,521)

Request for Resources 1*: To provide a centre of excellence for learning and development in support of the strategic business priorities of Government

A detailed explanation of the variance is 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

		2006-07		2005-06	
		£'000		£'000	
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	2	1,274	2,276	(1,002)	(1,521)
Prior Period Adjustments		-			-
Non-supply Income (CFERs)	5	-			-
Non-supply Expenditure		-			-
Net Operating Cost		1,274			(1,521)

3(b) Outturn against final Administration Budget

	2006-07		2005-06
	£'000		£'000
	Budget	Outturn	Outturn
Gross Administration Budget	32,276	29,346	-
Income allowable against the Administration Budget	(30,000)	(28,072)	-
Net outturn against final Administration Budget	2,276	1,274	-

4. Reconciliation of resources to cash requirement

	Note	Estimate £'000	Outturn £'000	Net total outturn compared with Estimate: saving/ (excess) £'000
<i>Resource Outturn</i>	2	2,276	1,274	1,002
<i>Capital:</i>				
Acquisition of fixed assets		-	-	-
Capitalisation of reversionary interest	18(b)	1,271	1,070	201
<i>Non-operating A in A:</i>				
Proceeds of fixed asset disposals		-	-	-
<i>Accruals adjustments:</i>				
Non-cash items	10	(1,070)	(1,794)	724
Changes in working capital other than cash	18(a)	-	426	(426)
<i>Excess cash receipts surrenderable to the Consolidated Fund</i>	5	-	-	-
Net cash requirement		2,477	976	1,501

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

5. Analysis of income payable to the Consolidated Fund

	Note	Forecast 2006-07		Outturn 2006-07	
		£'000		£'000	
		Income	Receipts	Income	Receipts
Operating income and receipts – excess A in A		-	-	-	-
Other operating income and receipts not classified as A in A		-	-	-	-
		-	-	-	-
Non-operating income and receipts – excess A in A	7	-	-	-	-
Other non-operating income and receipts not classified as A in A	8	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
Excess cash surrenderable to the Consolidated Fund	4	-	-	-	-
Total income payable to the Consolidated Fund		-	-	-	-

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

		2006-07 £'000	2005-06 £'000
	Note		
Operating income	11	27,860	30,029
Netted off in Operating Cost Statement:			
Seconded staff	9	212	290
Gross income		<u>28,072</u>	<u>30,319</u>
Income authorised to be appropriated-in-aid		(28,072)	(30,319)
Operating income payable to the Consolidated Fund	5	<u><u>-</u></u>	<u><u>-</u></u>

7. Non-operating income – Excess A in A

	2006-07 £'000	2005-06 £'000
Proceeds on disposal of fixed assets	-	-
Other	-	-
Non-operating income – excess A in A	<u><u>-</u></u>	<u><u>-</u></u>

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

	Income £'000	Receipts £'000
Total	<u><u>-</u></u>	<u><u>-</u></u>

9. Staff numbers and related costs

	2006-07			2005-06
	Total	Permanently employed staff	Others	£'000
				£'000
Wages and salaries	8,854	8,854	-	8,162
Social Security costs	770	770	-	696
Other pension costs	1,769	1,769	-	1,611
Temporary staff agency fees	411	-	411	252
	11,804	11,393	411	10,721
Inward Secondments	359	359	-	274
Total	12,163	11,752	411	10,995
Less recoveries in respect of outward secondments	(212)	(212)	-	(290)
Total net costs	11,951	11,540	411	10,705

During the year, costs of £1,768,770 were incurred in respect of pensions (2005-06: £1,610,949).

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

For 2006-07, employers' contributions of £1,758,297 were payable to the PCSPS (2005-06: £1,596,637) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2 per cent and 24.6 per cent).

The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 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 £9,818 (2005-06: £13,424) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £655 (2005-06: £888), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Average number of persons employed

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

	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
Objective 1	261	235	26	256

10. Other Administration Costs

		2006-07	2005-06
	Note	£'000	£'000
Rentals under operating leases:			
Hire of plant and machinery		251	128
Land and buildings		674	741
		925	869
PFI service charges	21	2,484	3,039
Non-cash items:			
Depreciation	12	1,171	1,188
Costs of capital charges		583	569
Auditors' remuneration*		40	-
		1,794	1,757
		5,203	5,665
Other expenditure		11,980	12,138
Total		17,183	17,803

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

Other expenditure comprises:

Staff travel, subsistence and hospitality	486	543
Other staff related costs	273	279
External lecturer fees and contracted out courses	5,817	6,432
Supplies and services	3,576	2,958
Accommodation and utilities	1,828	1,926
Other expenditure	11,980	12,138

11. Income

	2006-07	2005-06
	Total £'000	Total £'000
Administration income		
Training, seminars and consultancy	23,895	25,830
Investment funding	3,922	4,153
Other operating Income	43	46
	<u>27,860</u>	<u>30,029</u>

12. Tangible fixed assets

	Computer Systems	Furniture	Equipment	Dwellings	Land and Buildings	Total
	£'000					
Valuation						
At 1 April 2006	2,845	335	597	312	18,096	22,185
Additions	-	-	-	-	1,070	1,070
Disposals	-	-	-	-	-	-
Surplus on Revaluations	94	18	24	-	-	136
At 31 March 2007	2,939	353	621	312	19,166	23,391
Depreciation						
At 1 April 2006	2,049	151	405	16	2,859	5,480
during year	286	20	77	5	783	1,171
Disposals	-	-	-	-	-	-
Revaluation	57	8	15	-	-	80
At 31 March 2007	2,392	179	497	21	3,642	6,731
Net book value at 31 March 2007	547	174	124	291	15,524	16,660
Net book value at 31 March 2006	796	184	192	296	15,237	16,705
Asset financing:						
Owned	547	174	124	-	-	845
PFI finance leased	-	-	-	-	7,315	7,315
PFI contract assets	-	-	-	291	2,126	2,417
PFI residual interests	-	-	-	-	6,083	6,083
Net book value at 31 March 2007	547	174	124	291	15,524	16,660

Notes

Valuation

Land and Buildings and Dwellings

The Valuation Office Agency valued Sunningdale Park, Ascot, Berkshire, occupied by the National School of Government, as at 1 April 2007 on the basis of total worth in existing use reflecting the infrastructure.

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

All Other

All other tangible non-heritage fixed assets are re-valued annually using indices provided by HM Treasury.

Asset financing – National School of Government assets under a PFI contract

National School of Government has office buildings of £2.417 million (2005-06: £2.472 million) under an on-balance sheet PFI contract and training facilities of £7.315 million (2005-06: £8.047 million) under a finance lease and a residual interest in training facilities of £6.083 million (2005-06: £5.013 million). Further details about commitments under PFI contracts are disclosed at Note 21.

13. Debtors

13(a) Analysis by type

	2006-07	2005-06
	£'000	£'000
Amounts falling due within one year:		
Trade Debtors	3,168	3,394
Deposits and advances	253	528
Other Debtors	2	4
Prepayments and Accrued Income	140	149
VAT on debtors	16	23
	<u>3,579</u>	<u>4,098</u>

13(b) Intra-Government Balances

	2006-07		2005-06	
	£'000		£'000	
	Amounts falling due within one year	Amounts falling due after more than one year	Amounts falling due within one year	Amounts falling due after more than one year
Balances with other central government bodies	2,538	-	2,914	-
Balances with local authorities	108	-	93	-
Balances with NHS Trusts	7	-	32	-
Balances with public corporations and trading funds	72	-	355	-
<i>Subtotal: Intra-government Balances</i>	<u>2,725</u>	-	<u>3,394</u>	-
Balances with bodies external to government	854	-	704	-
At 31 March	<u>3,579</u>	-	<u>4,098</u>	-

14. Cash at bank and in hand

	2006-07	2005-06
	£'000	£'000
Balance at 1st April	2,187	1,061
Net change in cash balances	(686)	1,126
Balance at 31 March	<u>1,501</u>	<u>2,187</u>

The following balances at 31 March are held at:

Office of HM Paymaster General	1,495	2,184
Cash in hand	<u>6</u>	<u>3</u>
Balance at 31 March	<u>1,501</u>	<u>2,187</u>

15. Creditors

15(a) Analysis by type

	2006-07	2005-06
	£'000	£'000
Amounts falling due within one year:		
VAT	97	24
Other Taxation and Social Security	240	229
Trade Creditors	1,073	1,429
Other Creditors	188	178
Accruals and Deferred Income	1,711	2,410
Credit Notes	89	73
Cabinet Office creditor in respect of Consolidated Fund	-	2,187
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,501	-
	<u>4,899</u>	<u>6,530</u>

15(b) Intra-Government Balances

	2006-07		2005-06	
	£'000		£'000	
	Amounts falling due within one year	Amounts falling due after more than one year	Amounts falling due within one year	Amounts falling due after more than one year
Balances with other central government bodies	3,593	-	3,866	-
Balances with local authorities	68	-	129	-
Balances with NHS Trusts	67	-	29	-
Balances with public corporations and trading funds	43	-	274	-
<i>Subtotal: Intra-government Balances</i>	3,771	-	4,298	-
Balances with bodies external to government	1,128	-	2,232	-
At 31 March	<u>4,899</u>	-	<u>6,530</u>	-

16. General Fund

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

	2006-07	2005-06
	£'000	£'000
Balance at 1 April	14,265	14,335
<i>Net Parliamentary Funding:</i>		
Drawn Down	2,477	-
<i>Year end adjustment:</i>		
Supply Creditor – current year	(1,501)	-
Amount due to Cabinet Office in respect of Consolidated Fund	-	(2,187)
<i>Net Transfer from Operating Activities:</i>		
Net operating cost	(1,274)	1,521
<i>Non-Cash Charges:</i>		
Cost of capital	583	569
Auditors' remuneration	40	-
Transfer from revaluation reserve	29	27
Balance at 31 March	14,619	14,265

17. Reserves

Revaluation reserve

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

	2006-07	2005-06
	£'000	£'000
Balance at 1 April	2,195	1,712
Arising on revaluation during the year	56	510
Transfer to general fund in respect of realised element of revaluation reserve	(29)	(27)
Balance at 31 March	<u>2,222</u>	<u>2,195</u>

18. Notes to the Cash Flow Statement

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

		2006-07	2005-06
	Note	£'000	£'000
Net operating cost		(1,274)	1,521
Adjustments for non-cash transactions	10	1,794	1,757
Decrease/(Increase) in debtors	13	519	(381)
(Decrease)/Increase in creditors	15	(1,631)	1,733
Movement in creditors relating to items not passing through the Operating Cost Statement	15	686	(2,187)
Net cash outflow from operating activities		<u>94</u>	<u>2,443</u>

18(b) Analysis of capital expenditure and financial investment

		2006-07	2005-06
		£'000	£'000
Tangible fixed asset additions		-	(247)
Capitalisation of reversionary interest	12	(1,070)	(1,070)
Net cash outflow from investing activities		<u>(1,070)</u>	<u>(1,317)</u>

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

	Capital expenditure	Loans	A in A	Net total
	£'000			
Request for Resources 1	1,070	-	-	1,070
Total 2006-07	1,070	-	-	1,070
Total 2005-06	1,317	-	-	1,317

18(d) Analysis of financing

	Note	2006-07 £'000	2005-06 £'000
From the Consolidated Fund (Supply) – current year	16	2,477	-
Net financing		2,477	-

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

	Note	2006-07 £'000	2005-06 £'000
Net cash requirement		(976)	-
From the Consolidated Fund (Supply) – current year	18(d)	2,477	-
Payment to Cabinet Office in respect of amount due to Consolidated Fund		(2,187)	-
Amount due to Cabinet Office in respect of Consolidated Fund received and not paid over – current year		-	1,126
(Decrease)/Increase in cash		(686)	1,126

19. Capital commitments

	2006-07	2005-06
	£'000	£'000
Contracted capital commitments at 31 March 2007 for which no provision has been made	Nil	Nil

20. Commitments under leases

20.1 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.

	2006-07	2005-06
	£'000	£'000
Land and buildings		
Expiring within one year	-	-
Expiring after one but no more than five years	816	673
Expiring over five years	-	-
	<u>816</u>	<u>673</u>
Other		
Expiring within one year	44	56
Expiring after one but no more than five years	77	72
Expiring over five years	-	-
	<u>121</u>	<u>128</u>

20.2 Finance Leases:

There were no obligations under Finance leases.

21. Commitments under PFI Contracts

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

The National School gave a lease to the private sector partner for the office buildings against which sub leases were granted to the National School for their continuing use. These assets are included in Land and Buildings at a carrying value of £2.417 million (2005-06: £2.472 million).

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

As a consequence of these agreements –

Deferred asset

A pre-payment was established for the fair value of the National School's property contributed to the scheme at the commencement of the contract. This deferred asset is recognised as a tangible asset and written off over 15 years. Its value at March 31 2007 is £7.315 million (2005-06: £8.047 million).

Reversionary interest

A further asset is recognised for the National School's residual interest in the training facilities which revert to the National School at no cost at the end of the contract. The accruing residual interest, which is being built up over the term of the contract by capitalising part of the contract payments, is recognised as a tangible fixed asset. Its value at March 31 2007 is £6.083 million (2005-06: £5.013 million).

Whilst these two individual transactions reflect the underlying contractual arrangements, the National School retains ownership of the training facilities throughout the period of the contract, the value of which at 31 March 2007 is reflected in the combined carrying value of the deferred asset and reversionary interest of £13.398 million (2005-06: £13.060 million).

Combined value

The combined carrying value of the office buildings, dwellings and training facilities disclosed at Note 12 is £15.815 million (2005-06: £15.533 million).

Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of PFI transactions was £2,484,388 (2005-06: £3,038,724) as disclosed at Note 10 Other Administration Costs. The payments to which the Department was committed during 2006–07, analysed by the period during which the commitment expires, are as follows:

	2006-07	2005-06
	£'000	£'000
Expiry within one year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	-	-
Expiry within 11 to 15 years	2,265	2,446
Expiry within 16 to 20 years	-	-
Expiry within 21 to 25 years	-	-
Expiry within 26 to 30 years	-	-
	<u>2,265</u>	<u>2,446</u>

22. Other financial commitments

The Department has not entered into any non-cancellable contracts (which are not leases or PFI contracts).

23. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

24. Contingent Liabilities disclosed under FRS 12

There were no material contingent liabilities at 31 March 2007.

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

There were no material contingent liabilities at 31 March 2007.

26. Losses and special payments

There were no losses or special payments which require disclosure.

27. Related-party transactions

The Minister for the Cabinet Office is accountable to Parliament for the Department and is therefore regarded as a related party of the Department. During 2006/07 the Department has had various material transactions with the Cabinet Office.

The National School of Government undertakes the majority of its business with other government departments and other central government bodies. The National School's top 3 customers during 2006/07 were Ministry of Defence, Home Office and the Department for International Development.

A number of senior board members are senior managers in other government departments that do business with the National School of Government. All transactions with these other government departments are transacted under normal terms of business.

During the year, no minister, board member, key manager or other related parties has undertaken any material transactions with the National School of Government.

28. Third-party assets

The National School of Government did not hold funds on behalf of any other parties during the year.

29. Post Balance Sheet Events Note

The National School of Government's financial statements are laid before the Houses of Parliament by HM Treasury. FRS 21 requires the National School of Government to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the National School of Government's management to HM Treasury.

The authorised date for issue is 24 July 2007



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