

The Government Actuary's Department

Annual Report and Resource Accounts 2006-07

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Annual Report and Resource Accounts 2006-07

(For the year ended 31 March 2007)

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FOREWORD

Introduction

This document contains the Annual Report and Resource Accounts of the Government Actuary's Department (GAD) for the year 1 April 2006 to 31 March 2007. These have been prepared in accordance with the guidance set out in HM Treasury's Government Financial Reporting Manual (FReM) for 2006-07.

The Annual Report contains information consistent with that covered in a directors' report for a public company where relevant for a government department, a management commentary on GAD and a remuneration report. The Resource Accounts demonstrate the resources that have been used by GAD in delivering its objectives. The Resource Accounts have been prepared by GAD under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000.

The Aim and Objectives of the Department

The aim of the Department is

To provide mainly public sector clients with independent, professional actuarial advice of the highest quality.

To achieve our aim, the Department works to:

| | |
|--------------------|---|
| Objective 1 | Provide actuarial advice to Government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main public service pension schemes) and other employee benefits. |
| Objective 2 | Provide the social security projections, demographic analyses and actuarial advice necessary to underpin Ministerial decision-making in social security and pension policy and to provide the actuarial advice necessary for the regulation and supervision of financial institutions overseas. |

Principal Activities

The Department's provision of actuarial advice falls into the following main areas:

- a. Occupational pensions – A reasonable standard of living for the nation's citizens depends on an effective system of occupational and personal pensions provision. The sums involved are large and have an important bearing on the national economy. Public sector pension costs are a major item of expenditure. Their design must support employment objectives and appropriate costing and financial mechanisms are important in achieving value for money and financial control. They are a significant factor in the private finance initiative, in public/private partnerships and in contracting-out of services. Private pension schemes are governed by complex legislation and regulation, with a high level of actuarial involvement. The Department for Work and Pensions (DWP), the Treasury, HM Revenue & Customs, the Pensions Regulator, the Pensions Protection Fund, and virtually all other government departments and many public sector bodies call on GAD for advice on strategic and policy issues relating to pensions, advice on supervision of private pension schemes, individual cases and assistance on all matters relating to public sector pensions.
- b. Social Insurance – From its inception GAD has played a major role in establishing sound financial disciplines in this major area of public expenditure, which is a fundamental aspect of the modern state and economy. The Government Actuary has statutory obligations to report to Parliament with a range of independent reports on the financial impact, both in the short and long-term, of the social security legislation. Under the Social Security Administration Act 1992 there is a requirement for the Government Actuary to prepare a report to accompany any Order concerning the annual uprating of benefits, or changes in contributions, laid before Parliament by the Secretary of State for Work and Pensions. Legislation also demands a five-yearly report on the long-term financial prospects for the National Insurance Fund. The most recent report is the "Government Actuary's Quinquennial Review of

the National Insurance Fund as at April 2000" published in October 2003 (Cm 6008). In December 2004 an update to the report was published on GAD's web site (www.gad.gov.uk) GAD also advises a number of overseas governments on the design and financing of social security schemes and pensions.

- c. Demography and Statistics – GAD supplies demographic advice to the Office for National Statistics (ONS) and continues to provide National Savings & Investments with a verification of the statistical randomness of the premium bond system. The Department provides the actuarial input for the preparation of the Ogden Tables for use by the courts in personal injury and fatal accident cases.
- d. Insurance Supervision – The Department continues to advise on the regulation of the insurance industry and on the supervision of individual insurance companies in a number of jurisdictions outside of the UK.

Other Reports

GAD financial targets were published in its 2007 Spring Departmental Report (Cm 7115) along with future expenditure plans covering 2007-08. That report contains information about GAD which supplements this Annual Report and Accounts.

GAD's Departmental report is one of a series of Departmental reports. The following HM Treasury publications are also relevant:

- Main Estimates 2006-07;
- Supplementary Budget information 2006-07;
- Public Expenditure Statistical Analyses 2007 which present the overall Government expenditure outturn figures and plans for 2001-02 to 2008-09
- Spending Review 2004 which presents Government Spending plans for 2005-06 to 2007-08

Readers may also wish to refer to the Corporate Brochure, which contains more information about the Department. This document is produced by GAD for our clients and potential clients and can be found on the GAD website under: www.gad.gov.uk/Publications/General.htm

MANAGEMENT STRUCTURE AND GOVERNANCE:

Minister

GAD is one of the Chancellor's Departments. The Economic Secretary to the Treasury had Ministerial responsibility for the Department during the financial year. The post of Economic Secretary was held by Ivan Lewis MP until 5th May 2006 and thereafter by Ed Balls MP. No remuneration is payable by the Department to the Minister and the Department has no Special Advisers.

Permanent Head of the Department and Management Board

The position of Government Actuary, the permanent head of the Department, is held by Chris Daykin CB, MA, FIA, who chairs the Management Board. The other members of the Management Board during the year were:

| | |
|-------------------------|--|
| Andrew Johnston MA, FIA | Deputy Government Actuary |
| David Lewis FIA | Chief Actuary (Head of International Business) |
| Kevin Down BSc, ACMA | Director of Finance * |
| Simon Bancroft-Rimmer | Director of Personnel |
| Jan E Smith BA FIDM | Non-Executive Director** |
| Graham J Bartlett FCMA | Non-Executive Director** |

* Joined GAD on 5th June 2006.

** The Non-Executive Directors were selected for their independence and complementary skills.

Appointment of the Permanent Head of the Department and the Management Board

The permanent head of the Department was appointed by the Head of the Home Civil Service in 1989. The appointment was made under the general rules for Senior Civil Service Appointments, and may only be terminated in accordance with the Civil Service Management Code. The Deputy Government Actuary was appointed through promotion routines overseen by the Civil Service Commissioners and automatically has membership of the Management Board. The other executive members of the Management Board were appointed to the Department through open recruitment.

Governance

The Management Board meets monthly (normally with the exception of August). The aim of the Board is to advise the Government Actuary and to ensure that the Government Actuary's Department provides its clients with independent advice of the highest quality. It focuses on the overall strategic management of the Department appropriately managing the risks that face the Department and taking decisions on the key high level issues affecting the Department. Day-to-day operational issues are delegated to the Operations Committee and the Technical Committee, chaired respectively by the Deputy Government Actuary and the Government Actuary. A summary of the terms of reference of the Management Board, the Operations Committee and the Technical Committee is set out in Annex A.

There are a number of other Committees, working groups and task forces within GAD, most of which report to the Operations Committee. These all have clear terms of reference. Further information on these groups can also be found in Annex A.

The Management Board has reviewed the corporate governance within the Department and is satisfied that it is compliant in all material respects with the Code of Practice for Corporate Governance in Central Government Departments.

Audit Committee

GAD's Audit Committee has two posts which are currently filled by the two Non Executive Board Members Graham Bartlett (chairman) and Jan Smith. The Government Actuary, Director of Finance, Deputy Government Actuary, the External Auditors and the Internal Auditor are invited to attend the Committee, which normally meets four times a year. A third Non-Executive member, Mike Butler, was appointed to the Audit Committee on 17 May 2007.

Management Board Members' Remuneration

None of the Senior Staff listed above are formally members of the Senior Civil Service (SCS). The pay of the Government Actuary (GA) is determined on an annual basis, under agreed arrangements with the Permanent Secretary of HM Treasury, including informal consultation with some of GAD's major clients. The determination of the pay of the remaining Senior Staff has been formally delegated to the GA and is settled through the annual pay negotiation arrangements for GAD staff. Further detail of the remuneration of Board Members is given in the Remuneration Report.

MANAGEMENT COMMENTARY:

Operating Review

The past financial year has been another very successful one. Demand for our services from our major clients continues at a very high level. Recently the Department has lost a number of staff and we are currently busy recruiting new staff not only to replace those that have left us but also to build up our numbers to keep pace with the high demand from our clients for our services.

We believe that once again we have offered our clients value for money during the year and that our services remain competitively priced. Feedback from clients indicates that we continue to offer the quality and reliability of advice that our customers value.

This past year saw GAD complete the machinery of government changes that had been recommended by the Morris Review, saying farewell to the Occupational Pension Scheme Survey, which GAD had carried out at intervals since 1958, and most recently on an annual basis. GAD completed and published the 2005 Survey on 15th June 2006. Responsibility for the production of future Surveys has now been passed to the Office for National Statistics.

Public sector pensions remain GAD's predominant area of activity. GAD continued to advise most of the main public service pension schemes and gave extensive pensions policy advice to HM Treasury and advised other government departments and agencies on issues specific to them. Our actuaries advised the trustees and sponsoring employers of a number of funded pension schemes, with advice ranging from completing actuarial valuations to investment strategy and the management and communication of structural changes to schemes. The Department continued to be very closely involved in the ongoing discussions about the changes to the main public service pension schemes and GAD completed a valuation of the Teachers' Pension Scheme under the new arrangements. We currently have a number of major projects in hand. For example the wide-ranging reviews of the public service pension schemes continue to generate lots of activities for GAD. Although the Teachers' Pension Scheme changes were implemented from 1st January 2007, reviews of the NHS and Local Government Pension Schemes will require detailed consideration before proposals are implemented towards the end of 2007.

GAD's international business continues to flourish. Considerable volumes of work with regard to insurance supervision advice have been generated by our clients in both Cyprus and Saudi Arabia. The work with Saudi Arabia is currently particularly buoyant and we expect the contract to be renewed for a further year very soon. GAD continues to give advice to IMSS, the main health provider in Mexico, on risk management and long term financial stability. Together with work from other established clients in Bermuda, Channel Islands, Gibraltar and the Falkland Islands, overseas work continues at a very satisfactory level.

Further functions performed included preparation of the 6th edition of the Ogden Tables for use by the courts in the assessment of damages in personal injury and fatal accident cases. GAD also provided regular certification of the randomness of the monthly premium bond draw (ERNIE).

However, it is important that we build on our achievements. We set ourselves a very ambitious plan last year to improve our standards and performance in four main areas (a) the quality of our work (b) delivery efficiency (c) customer satisfaction and (d) staff development. Good progress has made progress in areas (a), (c) and (d) which are as follows :

Similar to all consultancies operating in an ever increasingly competitive environment the Department continues to look at ways it can improve its service to clients delivering good quality comprehensive advice quickly, effectively and at a competitive price. A series of internal workshops has generated fresh ideas and initiatives which management are currently reviewing. A greater emphasis is being placed on marketing our services and a series of interviews with our key clients both here in the UK and abroad are being set up to test the outcomes of the marketing workshops and allow the clients to tell us what they want from us now and in the future. This not only allows the Department to forge closer links with our clients but also gives GAD the opportunity to make clients aware of the full range of services GAD has to offer.

Other new initiatives put in place over the past year have seen the setting up of a research team to support front line actuarial teams. The aim being to adopt a more proactive marketing strategy necessitating a change of attitudes of staff to have more of a marketing orientation and to provide training to help staff develop new skills appropriate for this new environment.

This year GAD negotiated a new long-term settlement with HM Treasury for our spending targets for the next 4 years so we now have some certainty over future planning. Looking ahead it is important that the Department continues to broaden its vision of the services it offers and takes the active steps necessary to develop and expand our client database.

Progress plans under "Delivery Efficiency" to improve the way the Department allocates resources and responsibilities to minimise overloading and spare capacity, have been slowed. The aim had been to test alternative team structures but, due to the current high turnover of both qualified and trainee staff, this has not been possible to implement.

Financial Review

The exceptional high level of demand for actuarial advice from GAD has again been maintained over the past financial year. Although the overall value of sales is a little down from £10.7m (2005-06) to £10.5m (2006-07), GAD still achieved further growth in the key sectors it predominantly serves i.e. (UK Government Departments sales increased by 9% from £4.5m (2005-06) to £4.9m (2006-07) and clients from the Wider Public Sector increased by 5% from £2m (2005-06) to £2.1m in (2006-07). One area of work where GAD's input has declined has been in regard to the National Insurance Fund. However this drop in business was anticipated due to the Department for Work and Pensions (DWP) decision to take back in-house responsibility for estimating the costs of the short term benefits paid out of the National Insurance Fund. GAD continues to provide IT and facility management services to one of its tenants, the Human Tissue Authority (HTA), on a repayment basis. Shared services for Finance and Payroll management ceased by mutual agreement at the end of June 2006.

The Client Liaison Team who are the first line of contact with clients regarding invoicing and queries had another very successful year and achieved a reduction of £600K in the level of total debt (£2.9m in 2005-06 down to £2.3m in 2006-07). This meant GAD's cash flow remained strong throughout the year and will allow cash to be returned to the Consolidated Fund.

Capital investment was a modest £178K in 2006-07 compared to the higher than normal spend of £391K in 2005-06 following a management decision to transfer extra funding from running costs to capital expenditure. The capital spent in 2006-07 covers the normal replacement cycle of assets.

Staff costs remain the largest element of our budget, accounting for 65% of total expenditure, with the next most significant item being accommodation charges, which accounted for 19%. Staff costs have remained steady over the past financial year at £7.14m. The Department however currently has a recruitment and retention problem and a key priority for 2007-08 will be to bring numbers up to complement. GAD operates on a full cost recovery basis and is reliant on having a full complement of fee earning staff in order to cover staff costs and also all associated running cost expenditure.

General running cost expenditure excluding non cash costs increased by 12% in 2006-07. A significant factor contributing towards this increase was with regard to recruitment costs which increased from £17K (2005-06) to £99K in 2006-07. Due to the specialism of the actuarial profession there are not many on the market and many actuaries are signed up with recruitment agencies which involves the Department having to pay additional costs. GAD management also took the decision to re-launch its image with a new identity and logo which involved additional one-off costs in 2006-07.

Looking ahead, there is no current indication that demand for GAD's services will slacken in 2007-08. In fact, the exceptionally high demand for our services has meant GAD having actively to recruit in order to build up its technical resources to keep pace with current demand. As a result of this exercise GAD expects to see its salary and running cost expenditure increase in 2007-08 but all extra costs will be recovered through the additional fee income that will be generated.

Conscious of the increasingly competitive environment in which GAD operates, the Management Board is implementing a marketing plan that will enable the Department to move into a more proactive mode of marketing GAD's services in a targeted and considered way. Also, in order to increase business profitability and efficiency, management will be reviewing current workloads and work priorities, which currently vary considerably, by testing alternative team structures for better effectiveness in improving our service to clients.

A continual process of reassessing our work processes together with efficiency measures has meant that the Management Board has been able to limit hourly rate increases for 2007-08 to below inflation at just over 3%, with fee rates remaining well below those of private sector providers.

Below are set out two summary tables. Table 1 is a reconciliation of resource expenditure between Estimates, Accounts and Budgets which in GAD's case all reflect the same figure. Table 2 includes data taken from our accounting schedules and notes contained in these resource accounts:

Table 1: Reconciliation of resource expenditure between Estimates, Accounts and Budgets

| | 2006-07 | 2005-06 |
|--|---------|---------|
| | £000 | £000 |
| Net Resource Outturn | 396 | (411) |
| Net Operating Cost | 396 | (411) |
| Resource Budget Outturn | 396 | (411) |
| Of which: <i>Departmental Expenditure Limits (DEL)</i> | 396 | (411) |
| <i>Annually Managed Expenditure (AME)</i> | | |

From 2007/08 losses on revaluation will be recorded as AME.

Table 2: Income and Expenditure on a Resource Basis for the year ended 31 March 2007

| | 2006-07 | 2005-06 |
|--|---------------|---------------|
| | £000 | £000 |
| Expenditure | | |
| Staff costs | 7,136 | 7,188 |
| General administrative costs | 3,002 | 2,682 |
| Movements in work in progress | 174 | (101) |
| Non cash costs | 592 | 505 |
| Total Expenditure | 10,904 | 10,274 |
| Income | | |
| Fees and charges to other government Departments | 6,393 | 6,115 |
| Of which: <i>Income from sub-tenants</i> | 895 | 722 |
| <i>Fees and charges to National Insurance Fund</i> | 190 | 874 |
| Fees and charges to the wider public sector and others | 4,115 | 4,570 |
| Total Income | 10,508 | 10,685 |
| Balance of expenditure over income | | |
| (Net Operating Cost) | 396 | (411) |
| Adjustment for Machinery of Government Changes 2006-07 (i) | - | (60) |
| Revised Net Operating Cost | 396 | (471) |
| Reversal of Adjustment for Machinery of Government Changes | - | 60 |
| Net Operating Cost | 396 | (411) |
| CFER Payable | 664 | 411 |
| Purchase of fixed assets | 178 | 391 |
| Non cash items | (596) | (505) |
| Adjustment for changes in working capital | (421) | 869 |
| Changes in creditors falling due in more than one year | (231) | (384) |
| Release from Revaluation Reserve | 4 | - |
| Use of provision | 6 | 9 |
| Net Cash Requirement for the year | - | 380 |

(i) The adjustment for Machinery of Government changes reconciles the Net Operating Cost for both years. See Note 7 to the accounts.

Payment of Suppliers

The Department adheres to the Better Payment Practice Code. The policy is that all bills should be paid in accordance with credit terms, or where no such terms exist, within 30 days of the receipt of goods or services, or upon the presentation of a valid invoice, whichever is the later. The calculation of payment performance for 2006-07 has been based on continuous monitoring of payments since the start of the year. On this basis, we are pleased to report that 99.1% of payments by volume met the policy criteria. This represents the continuing improvement the Department has made over the past two years. The equivalent figures for 2004-05 and 2005-06 were 89% and 98% respectively. Again no interest payments were made in 2006-07 to suppliers under the Late Payment of Commercial Debts (Interest) Act 1998.

Employment Policies

Equal Opportunities and Diversity

GAD is fully committed to providing equal opportunity for all staff, regardless of colour, nationality, ethnic origin, religion, gender, sexual orientation, age, marital status or trade union affiliation. Our aim is that the Department should reflect a diverse, modern society at all levels and both to bring in and bring on talent. Throughout the year, the GAD management team entered into regular dialogue with the recognised union on matters affecting staff.

Disabled Persons

As GAD is committed to providing equal opportunities for all staff, disability is not a bar to recruitment or advancement in the Department. The Department observes good practice in the areas of employment particularly relevant to staff with disabilities and provides all necessary facilities.

Information for Staff and Communications Policy

GAD keeps all members of staff informed of changes in and affecting the Department. We operate an intranet site that is regularly updated with policy and guidance. Regular e-mails, Office Notices and updates of other general Departmental information are also used. There are a number of operating committees under the Management Board to encourage direct staff input into Departmental decision-making.

Training and Development

GAD has always recognised that people are the most important resource to manage. The Department successfully earned re-accreditation as Investors in People (IiP) once more in 2004. GAD management ensures that training and development opportunities continue to be available to all staff and the commitment remains as strong as ever to provide a full range of training opportunities. The employment of an in-house trainer on a loan-period has enabled the Department to introduce a more focussed programme of management training. Although the loan period of the in-house trainer has now expired, GAD will continue to source training from external suppliers together with job training, coaching and mentoring. GAD also sponsors staff taking a number of different professional exams (including actuarial and accountancy disciplines) and operates a staff mentoring scheme for trainees. The training provision also includes Continuing Professional Development (CPD) needed by our professional staff, personal development and leadership and programmes of study leading to professional qualifications at appropriate levels.

Auditor

The Comptroller and Auditor General is the external auditor for GAD's accounts. The auditor's remuneration in 2006-07 increased to £42,000 (2005-06: £40,000.) No fees were incurred for non-audit work (2005-06: £Nil.)

The Accounting Officer confirms that:

- there is no relevant audit information of which the auditors are unaware;
- he has taken all steps he ought to ensure that they are aware of relevant audit information; and
- he has taken all the steps he ought to establish that the entity's auditors are aware of the information.

Chris Daykin CB MA FIA
Government Actuary
Accounting Officer

5 July 2007

TERMS OF REFERENCE OF MANAGEMENT BOARD AND ITS KEY COMMITTEES – ANNEX A

Management Board

Aim

The aim of the Management Board is to advise the Government Actuary to ensure that the Government Actuary's Department (GAD) provides mainly public sector clients with independent, professional, actuarial advice of the highest quality on a repayment basis while meeting or exceeding the financial targets set out in our HM Treasury remit as a net regime.

The Management Board is also required to set and maintain realistic Service Delivery Targets and detailed "management targets" for monitoring the performance of the Department.

Responsibilities

- To be the main body responsible for advising the GA on the direction, and the management of GAD, subject to any responsibilities which fall directly upon the Government Actuary (GA) in view of his position as Head of Department and Accounting Officer.
- To formulate strategic plans (3 year forward plan) and a business plan (single year plan) to be used as reference by officers in GAD to achieve the aims noted above.
- To deliver the agreed aims of the Department, monitor progress against the strategic plan and Departmental commitments and take appropriate action to ensure that these are achieved.

Links to Other Government Departments and Authorities

- The Management Board is responsible to the Government Actuary, who in turn is accountable to the Economic Secretary to the Treasury
- Decisions cannot be taken by the Management Board without agreement from HM Treasury where they
 - Recommend changes to the fees and charges policy;
 - Impact on the vote funding requirement (administration resources for repayment activity and the Capital funding requirement);
 - Change the Strategic Direction and thus adjust the ambit of spending for the Department;
 - Affect the Service Delivery Agreement targets.
- Decisions taken by the Management Board may need to be reported to Cabinet Office and the Civil Service Commissioners where they affect the working conditions of GAD employees

Audit Committee

Aim

The Accounting Officer has established an Audit Committee to support him in his responsibilities for issues of risk control and governance and associated assurance.

The Audit Committee meets at least four times a year. The Chair of the Audit Committee may convene additional meetings as deemed necessary.

Audit Committee meetings are normally attended by the Accounting Officer, the Finance Director, the Head of Internal Audit, and a representative of External Audit. The Audit Committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter. The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.

The Accounting Officer (or Board) may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

Responsibilities

The Audit Committee will advise the Accounting Officer (or Board) on

- the strategic processes for risk, control and governance and the Statement on Internal Control;
- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity, including external audit's management letter;
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

Operations Committee*Aim*

The Operations Committee handles the day to day operations of GAD to enable the Government Actuary and the Management Board to focus on the strategic management of the Department.

Responsibilities

- The Operations Committee is responsible for the effective and efficient day to day delivery of GAD's business including all areas of risk management. It functions within the policies and strategies of the Management Board; and the requirements placed upon the Government Actuary as Head of Department and Accounting Officer.
- The Committee has authority to take such decisions as are required in order that the Management Board can focus on strategic and major policy matters issues.
- The Operations Committee coordinates and oversees decisions by executive managers of GAD, ensuring that there is coherence in operational practice across the Department, and that the Departmental implications have been considered before decisions are made. Executive managers are responsible for actions and decisions in accordance with their job descriptions.
- The Business Systems Group, which is the main forum for the users, management, and IT professionals to regularly meet to discuss all aspects of GAD's use of IT, reports to the Operations Committee.
- The Operations Committee is not responsible for the development, content or presentation of professional advice.

Specific responsibilities*Finance*

Monitor the financial position of the Department throughout the year and authorise necessary actions if there are signs of overspend or shortfall of income.

Monitor the Department's performance relative to targets agreed with HM Treasury as part of the Spending Review. Identify and oversee the implementation of appropriate actions to improve GAD's performance against those targets.

Make proposals to the Management Board in February for the fee rates to apply for the following financial year.

The Finance Director consults the Committee during preparation of the Business Plan and Annual Report and on any returns or reports made to the Treasury and Cabinet Office on the operations of GAD. The Committee monitors compliance on central reporting.

Risk management

Ensure that the Departmental risk register is maintained, that responsibilities are assigned for monitoring and managing each of the significant risks and that those responsible are held accountable.

Oversee management's response to internal audit reports and ensure that recommendations of Internal Audit that have been accepted by management are implemented in a timely way.

Ensure that systems are in place for efficient and effective storage and retrieval of information, to comply with Data Protection Act requirements and with Freedom of Information Act requests and to develop and maintain a modern and efficient structure of paper and electronic records to support business requirements.

Effectiveness and efficiency

Determine and keep under review the information needs of managers at all levels. Oversee the development of management information delivery for use by managers throughout the Department.

Determine and keep under review software, organisational and other tools needed by managers at all levels. Oversee the development of suitable tools for use by managers throughout the Department.

Identify best management practice and oversee the dissemination and delivery of such practice across the Department.

Identify potential improvements in operational effectiveness and value for money. Allocate responsibility for taking forward and overseeing delivery.

Ensure that arrangements are in place for the efficient and effective delivery of office services, IT support and facilities management.

Marketing

Direct the implementation of the marketing strategy approved by the Management Board.

Ensure that adequate systems are in place for robust control of the tendering process and for pricing new contracts.

Devise a new client satisfaction survey and oversee the creation of a new client database.

Personnel

Coordinate manpower planning throughout the Department and approve recruitment plans.

Oversee Departmental pay policy and ensure that other HR policies are implemented as necessary.

Oversee GAD's fulfilment of its commitments as an Investor in People.

Technical Committee

Aim

The Technical Committee develops coherent approaches to areas of technical and professional interest across the Department, including, but not exclusively, consistency and defensibility in the provision of client advice.

Responsibilities

- To consider and promote professional practices in the Department, including the use and management of actuarial techniques, and to identify training needs in this area.

- To consider and recommend baseline actuarial assumptions for use within the Department.
- To produce as required position papers and Technical Committee Notes to be made available across the Department.
- To consider the Department's responses to formal and informal consultation exercises on professional matters.
- To consider how the Department should react to developments affecting our professional role.
- To monitor and take action in support of the Department's compliance with professional requirements, including keeping up-to-date the GAD Actuarial Practice Notes (APNs).
- To consider any generic issues relating to compliance with the Professional Conduct Standards, the Civil Service Management Code and the Board of Actuarial Standards Guidance Notes.
- To monitor and consider the handling of risks to GAD's business which are professional or technical actuarial.
- To identify research priorities and co-ordinate research activities.

Attendance at Management Board meetings in 2006-07

| | |
|---------------------------------|---|
| Number of meetings | 9 |
| Number of meetings attended by: | |
| Chris Daykin | 9 |
| Andrew Johnston | 6 |
| Kevin Down ¹ | 9 |
| Simon Bancroft-Rimmer | 8 |
| David Lewis | 9 |
| Graham Bartlett | 9 |
| Jan Smith | 9 |

¹ Joined GAD 5 June 2006, but attended earlier meeting as a guest

Attendance at Audit Committee meetings in 2006-07

| | |
|---------------------------------------|---|
| Number of meetings | 4 |
| Number of meetings attended by: | |
| David Parsons (Chairman) ¹ | 1 |
| Graham Bartlett (Chairman) (NED) | 4 |
| Jan Smith (NED) | 4 |
| Ian Boonin | 1 |
| Other Attendees: | |
| (Accounting Officer) | 2 |
| (Deputy Government Actuary) | 4 |
| (Director of Finance) | 4 |
| (Director of Personnel) | 2 |
| (Internal Audit) | 4 |
| (External Audit) | 4 |

¹ Retired following 14 June 2006 meeting

REMUNERATION REPORT

Salary and pension entitlements of Management Board Members

Remuneration Policy

The permanent head of the Department was appointed by the Head of the Home Civil Service in 1989. The appointment was made under the general rules for Senior Civil Service Appointments and the appointment may only be terminated in accordance with the Civil Service Management Code. The Deputy Government Actuary was appointed through promotion routines overseen by the Civil Service Commissioners and is automatically a member of the Management Board. The Director of Finance and the Director of Personnel were appointed to the Department through open recruitment competitions.

The pay of the Government Actuary is determined on an annual basis, under agreed arrangements with the Permanent Secretary of HM Treasury, including informal consultation with some of GAD's major clients. The determination of the pay of the remaining Senior Staff has been formally delegated to the Government Actuary, and is subject to the annual pay negotiation arrangements for GAD staff.

Service Contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach retirement age. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salary and pension entitlements

No Ministerial Remuneration is paid. The following sections provide details of the remuneration and pension interests of the Board Members. These details are shown in accordance with the 2006-07 Government Financial Reporting Manual (FRM) issued by HM Treasury. These figures have been supplied by Cabinet Office.

In addition to those listed in the table, the Government Actuary's Department has two non-executive directors (NEDs), who receive no emoluments except for fees of £500 per day of service plus their travelling expenses (see Note 8a for more details). The total amount received by the NEDs in 2006-07 was £11,000 in respect of fees and £173.60 in respect of expenses. The amounts disclosed in this paragraph have been audited.

Salary and pension entitlements

Remuneration and pension benefits of Board members in 2006-07 (This table has been audited).

| | Salary including performance pay (ii) | Real increase in pension at age 60 (iii) | Real increase in lump sum at age 60 (iv) | Pension at 31/03/07 (v) | Lump sum at 31/03/07 (vi) | CETV at 31/03/06 (vii) | CETV at 31/03/07 (viii) | Employee contributions and transfers-in (ix) | Real increase in CETV as funded by employer (x) |
|---|---------------------------------------|--|--|-------------------------|---------------------------|------------------------|-------------------------|--|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Chris Daykin <i>Government Actuary</i> | 190-195 | 0-2.5 | 5-7.5 | 85-90 | 265-270 | 1,941 | 2,080 | 4,906 | 47 |
| Andrew Johnston <i>Deputy Government Actuary</i> | 135-140 | 0-2.5 | 2.5-5 | 50-55 | 155-160 | 863 | 907 | 4,889 | 22 |
| Kevin Down <i>Director Finance</i> | 50-55 | 0-2.5 | 2.5-5 | 10-15 | 30-35 | 111 | 139 | 696 | 12 |
| David Lewis <i>Head of Overseas Business</i> | 115-120 | 0-2.5 | 2.5-5 | 15-20 | 55-60 | 423 | 473 | 1,629 | 28 |
| Simon Bancroft-Rimmer <i>Director of Personnel</i> | 45-50 | 0-2.5 | 0-2.5 | 10-15 | 35-40 | 157 | 167 | 691 | 8 |

Salary

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

Benefits in Kind

Benefits in kind refer to any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. No payments of this kind were reported in respect of Board Members in respect of the accounting period.

Cash Equivalent Transfer Value

Columns (vii) and (viii) of the above table show the member's cash equivalent transfer value accrued at the beginning and end of the reporting period.

A cash equivalent transfer value 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 cash equivalent transfer value 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 cash equivalent transfer value 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 Principal Civil Service Pension Scheme arrangements and for which the Civil Superannuation Vote has received a transfer payment relating to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

Cash equivalent transfer values are as advised by the actuary to the PCSPS and are calculated in accordance with the guidelines and framework prescribed by the standards of practice of the UK Actuarial Profession.

The real increase in the value of the CETV funded by the employer

Column (x) reflects the increase in cash equivalent transfer value effectively funded by the employer. It takes account of the increase in accrued pension due to service during the year and salary increases, and deducts contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) so as to give an estimate of the increase in the value of the CETV funded by the employer during the year. It is calculated using the same market valuation factors for the start and end of the period in order to avoid the distortion that would be caused by factors reflecting the changed market conditions.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants have had the option of being members of one of three statutory based "final salary" defined benefit schemes (**classic**, **premium**, and **classic plus**). New entrants after 1 October 2002 only had the option to join **premium** or the partnership pension account.

(i) Classic Scheme

Benefits 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. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this

case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(ii) 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 commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents the member from undertaking any gainful employment, service is enhanced to what would have otherwise accrued at age 60.

(iii) Classic Plus Scheme

This is a variation of **premium**, but with benefits in respect of service before 1 October 2002 calculated broadly as per **classic**.

Pensions payable under **classic**, **premium**, and **classic plus** are increased in line with the Retail Prices Index.

The Schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. New entrants after 1 October 2002 have been able to choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (the **partnership pension account**).

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

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

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

Chris Daykin CB MA FIA
Government Actuary
Accounting Officer

5 July 2007

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Government Actuary's Department 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 Government Actuary's 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 Permanent Head of the Department as Accounting Officer of the Government Actuary's 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 Government Actuary's Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of Government Actuary's Department's 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.

Although GAD is a non-Ministerial Department, contact has been maintained with Ed Balls MP (the Economic Secretary to the Treasury) and his predecessor, Ivan Lewis MP. He would be made aware of any issues the Department faces relating to the management of risk.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically, taking into account the size of the department and the nature of its operations and risks. The system of internal control has been in place in the Government Actuary's Department for the year ended 31 March 2007 and up to the date of approval of the accounts.

3. Capacity to handle risk

The Department has established and maintains a comprehensive risk register. The Operations Committee reviews the register at its monthly meeting and any serious matters are referred to the Management Board for consideration. All members of the senior management team accept responsibility for the management of risks in their areas and ensure that information on major risks is communicated to staff in an appropriate and timely manner.

4. The risk and control framework

The Risk Assessment Group which was set up in 2004-05 to prepare and maintain the departmental risk register was disbanded during the year. Responsibility for maintaining and reviewing the risk register now falls under the supervision of the Operations Committee, which also oversees the detailed management of risks on behalf of the Management Board. In 2006-07 the Operations Committee carried out a full review of all risks listed on the register in order to bring the register up to date. It was also an opportunity to group together similar risks and thus make the register a more manageable document.

The Department has established the following processes:

- The Management Board generally meets once a month to consider the plans and overall strategic direction of the Department.
- Strategic aims are considered during an annual Management Board away-day session. The annual Business Plan is developed with clear aims, objectives and deliverables so that each member of staff can see a correlation between their job description and the business plan for the coming year.
- Detailed budgets for expenditure and targets for income are identified during the corporate planning process and then monitored each month through a series of financial reports presented to the Management Board.
- Various working groups report to the Operations Committee, which is chaired by the Deputy Government Actuary. Professional and technical matters are dealt with by the Technical Committee, chaired by the Government Actuary. There is also an Audit Committee, which reports directly to the Accounting Officer and the Management Board.

- Responsibility for controlling and maintaining the departmental risk register falls within the remit of the Operations Committee, which is also responsible for looking at any items of risk which are a cause for concern. Each risk recorded on the register is owned by a nominated member of staff. Any risks identified as high risk by the Operations Committee are brought to the attention of the Management Board.
- All new infrastructure projects require a project impact assessment as part of the initiation process and follow the OGC Gateway review process. Major projects are also subject to a Post Implementation Review to ensure that the Department learns lessons from each implementation.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. The Department re-considered its internal audit arrangements in the year and as a result we have appointed internal auditors from the Department for Communities and Local Government to carry out the internal audit work for 2006-07. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditor and the executive managers within the Government Actuary's Department who have responsibility for the development and maintenance of the internal control framework, as well as by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit Committee.

The annual report by the Head of Internal Audit gave a substantial assurance on GAD's Governance arrangements, but a limited assurance on Risk Management and Control. A review of the assurance framework has been carried out and a more formal system has been implemented in keeping with good practice.

GAD has implemented a formal system of assurance statements provided to me from senior managers. These assurance statements confirm that managers had understood and followed procedures and include formal plans to address any weaknesses noted in the systems they are responsible for. The certificates provided me with evidence that independent checks were completed on the systems of control, and ensured that the procedures necessary to implement the Treasury guidance for the 2006-07 financial year were in place. I get reassurance both from those certificates, and from the good relations between the experts responsible for each of the systems and the delegated budget owners.

Drawing on the work of the Internal Auditor and advice from the Audit Committee, action has been taken and plans are being developed to address any material weaknesses that have been identified and to ensure continuous improvement of the systems in place. For example:

GAD's risk management strategy and policies will be formally documented. The Operations Committee is making good progress with a thorough review of the risk register ensuring its completeness and that it complies with best practice.

A working group, chaired by a Chief Actuary, has been set up to improve the way GAD manages its casework to assist in efficiently allocating staff resources and to ensure we continue to provide a good service to clients.

Following the Morris Review, the Department has been taking positive steps to operate more effectively in an increasingly competitive environment. Our client base is subject to many pressures and we have now to be more proactive in selling our services to existing customers and ensuring that the service GAD offers is what the client wants. Advice must be given in a form which is readily understood, accessible and useable for our clients. These themes came out strongly in a series of workshops GAD held recently. GAD will now take forward ideas from the workshops with the following initiatives planned:

- The department is in the process of holding interviews with 15 key clients to test the outcomes of the marketing workshops.
- Regularly test client views for feedback of the department's performance.
- Implement a programme of regular visits to our major UK clients and also arrange similar opportunities to meet our main overseas clients

The Management Board agreed last December to set up a marketing team which will take the lead in forging closer relationships with our clients. As part of the new marketing strategy GAD earlier this year relaunched itself with a new much more modern corporate identity.

As noted above, the Management Board regularly reviews risks. Responsibilities for management of risk and risk review are allocated in this forum, though information on risks and their management will now be supplied by other groups and Committees in GAD. In addition, the effectiveness of the system of internal control is considered in the following ways:

- Two Non-Executive Directors now sit on the Management Board in line with best practice, and with particular regard to the increasing transparency and rigour of the risk management process.
- The Audit Committee, which consists of the two non-executive Directors and a further non-executive member, reviews the priorities for risk assessment in the Department and agrees a timetable and yearly plan for the Internal Auditor.
- The Internal Auditor acts independently in providing advice to the Accounting Officer and to the Management Board and also makes direct recommendations to representatives on the Management Board if he feels that additional audit activity is required on specific topics.
- Senior Management Team Members also contribute to and participate actively in the profession and keep in touch with the latest professional developments by working on Committees and working parties for the Institute and Faculty of Actuaries. Up-to-date knowledge of the latest professional developments is shared through the Technical Committee, which reports to the Management Board.

Chris Daykin CB MA FIA
Government Actuary
Accounting Officer

5 July 2007

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 Government Actuary's Department 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 a Management Structure and Governance report, a Management Commentary, and a Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement,

whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

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 cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual report, which comprises a Management Structure and Governance Report, a Management Commentary, and a Remuneration Report 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.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

10 July 2007

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

The maintenance and integrity of the Department's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

| | Notes | 2006-07 | | | 2006-07 | | | 2005-06 | |
|--|-------|-------------------|---------------|------------|-------------------|---------------|--|--------------------|----------|
| | | Gross Expenditure | A-in-A | Net Total | Gross Expenditure | A-in-A | Net Total | £000 | |
| | | | | | | | Net Total Outturn Compared with the Estimate: Saving/ (Excess) | Prior Year Outturn | |
| Request for Resources 1 | 2 & 3 | 12,465 | 11,847 | 618 | 10,904 | 10,508 | 396 | 222 | - |
| Total Resources | | 12,465 | 11,847 | 618 | 10,904 | 10,508 | 396 | 222 | - |
| Non Operating Cost Appropriated in Aid | | - | - | - | - | - | - | - | - |

Net Cash Requirement 2006-07

| | Notes | Estimate | Outturn (Net Total) | 2006-07 £000 | 2005-06 £000 |
|-----------------------------|-------|------------|---------------------|--|--------------------|
| | | | | Net Total Outturn compared with the Estimate: Saving/ (Excess) | Prior Year Outturn |
| Net Cash Requirement | 4 | 286 | - | 286 | 380 |

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid the following income relates to the Department and is payable to the Consolidated Fund.

| | Notes | Income | Forecast 2006-07 £000 Receipts | Income | Outturn 2006-07 £000 Receipts |
|---|-------|----------|--------------------------------|----------|-------------------------------|
| Income payable to the Consolidated Fund | | - | - | - | - |
| Total | 5 & 6 | - | - | 2 | 666 |

An explanation of the variances between Estimate Net Cash Requirement/Net total resources and outturn are given in Note 2 and in the Operating and Financial Review.

The notes on pages 29 to 44 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2007

| | Notes | 2006-07 | | 2005-06 Restated* | |
|-------------------------------------|-------|---------------|------------|----------------------|--------------|
| | | £000 | £000 | £000 | £000 |
| Administration Costs | | | | | |
| Staff Costs | 8 | 7,136 | | 7,138 | |
| Other administration costs | 9 | 3,594 | | 3,177 | |
| Movement in Work in Progress | 13 | 174 | | (101) | |
| | | 10,904 | | 10,214 | |
| Gross Administration Costs | | | | | |
| Operating Income | 10 | (10,508) | | (10,685) | |
| Net Operating (Surplus)/Cost | | | 396 | | (471) |

*Some prior year figures have been restated to reflect a transfer of function (Note 7)

Statement of Recognised Gains and Losses

For the Year ended 31 March 2007

| | Notes | 2006-07 | 2005-06 |
|---|-------|------------|-----------|
| | | £000 | £000 |
| Net gain on revaluation of Tangible Fixed Assets | 19 | 133 | 69 |
| Total recognised gains and losses for the Financial Year | | 133 | 69 |

The notes on pages 29 to 44 form part of these accounts.

Balance Sheet

as at 31 March 2007

| | Notes | 31 March 2007 | | 31 March 2006 | |
|---|-------|---------------|--------------|---------------|--------------|
| | | £000 | £000 | £000 | £000 |
| Fixed Assets | | | | | |
| Tangible assets | 11 | 1,598 | | 1,605 | |
| Intangible assets | 12 | 231 | | 366 | |
| | | | 1,829 | | 1,971 |
| Current Assets | | | | | |
| Work-in-Progress | 13 | 435 | | 609 | |
| Debtors | 14 | 2,383 | | 2,983 | |
| Cash at bank and in hand | 15 | 950 | | 760 | |
| | | 3,768 | | 4,352 | |
| Creditors | | | | | |
| (Amounts falling due within one year) | 16 | (1,670) | | (1,815) | |
| Net Current Assets | | | 2,098 | | 2,537 |
| Total Assets less Current Liabilities | | | 3,927 | | 4,508 |
| Creditors | | | | | |
| (Amounts falling due after one year) | 16 | | (1,439) | | (1,208) |
| Provisions for Liabilities and Charges | 17 | | – | | (6) |
| | | | 2,488 | | 3,294 |
| Taxpayers' Equity | | | | | |
| General fund | 18 | | 2,277 | | 3,212 |
| Revaluation reserve | 19 | | 211 | | 82 |
| | | | 2,488 | | 3,294 |

Chris Daykin CB MA FIA
 Government Actuary
 Accounting Officer

5 July 2007

The notes on pages 29 to 44 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2007

| | <u>2006-07</u> | <u>2005-06</u> |
|--|----------------|----------------|
| Notes | £'000 | £'000 |
| Net cash inflow/(outflow) from operating activities | 20a 1,186 | 390 |
| Capital expenditure and financial investment | 20b (178) | (359) |
| Financing | 20c (818) | 316 |
| Increase/(Decrease) in cash in the period | 20d <u>190</u> | <u>347</u> |

The notes on pages 29 to 44 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

| | Note | 2006-07 | | | 2005-06 Restated* | | |
|---|------|---------------|---------------|------------|----------------------|---------------|--------------|
| | | <u>Gross</u> | <u>Income</u> | <u>Net</u> | <u>Gross</u> | <u>Income</u> | <u>Net</u> |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| AIM: | | | | | | | |
| To provide mainly public sector clients with independent, professional, actuarial advice of the highest quality at a reasonable cost. | | | | | | | |
| Objective 1 | | | | | | | |
| To provide the actuarial advice to Government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main pension service schemes) and other employee benefits | 21 | 8,048 | 7,547 | 501 | 7,112 | 7,135 | (23) |
| Objective 2 | | | | | | | |
| To provide the social security projections, demographic analysis and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy and provide the actuarial advice necessary for the regulation and supervision of financial institutions. | 21 | 2,856 | 2,961 | (105) | 3,102 | 3,550 | (448) |
| Net Operating Costs | 21 | 10,904 | 10,508 | 396 | 10,214 | 10,685 | (471) |

*Some prior year figures have been restated to reflect a transfer of function (Note 7)

The notes on pages 29 to 44 form part of these accounts.

NOTES TO THE RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HM Treasury's Government Financial Reporting Manual (FReM) for 2006-07. 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. The particular accounting policies adopted by the Department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs. As allowed in the FReM 2006-07, the Department uses end-year revaluation for modified historic cost accounting purposes.

1.2 Intangible Fixed Assets

Computer software

Computer software and its associated consultancy costs having a minimum value of £1,000 are capitalised. The cost of such software is amortised over its expected useful life. Computer software valuations are based on the Department's estimate of their current valuation, taking into account appropriate indices.

1.3 Tangible Fixed Assets

Fitting out costs – Leasehold Property

The Department moved into new leasehold premises on 24 July 2003. The fit-out costs were capitalised in the financial year 2003-04 and will be amortised over an effective life of 20 years from 24 June 2004 – being the date of practical completion of the property.

Computer Equipment and Office Furniture

Computer Equipment and Office Furniture valuations are based on the Department's estimate of their current valuation, taking into account appropriate indices. The minimum level for capitalisation of fixed assets is £1,000. Similar assets purchased in the same month will be grouped for the purpose of assessing whether they meet the capitalisation threshold.

1.4 Depreciation

Depreciation is provided at rates calculated to write off the valuation of tangible and intangible fixed assets by equal instalments over their estimated useful lives. Depreciation periods adopted are as follows:

| | |
|---|-----------------|
| <i>Computer – Printers and Servers</i> | <i>4 years</i> |
| <i>Computer – Other Hardware</i> | <i>3 years</i> |
| <i>Computer – Software small packages</i> | <i>4 years</i> |
| <i>Major software packages</i> | <i>8 years</i> |
| <i>Actuarial Valuation software</i> | <i>4 years</i> |
| <i>Office Furniture</i> | <i>10 years</i> |
| <i>Enhancements to Finlaison House</i> | <i>10 years</i> |
| <i>Fit-out costs for Finlaison House</i> | <i>20 years</i> |

Some individual software packages are depreciated on a longer or shorter life span – dictated by the expected useful life of the system. Items that have a determinable lifespan (such as software licences) will have a lifespan equal to that of the licence itself. Some recent minor enhancements to the building are depreciated over ten years.

1.5 Foreign Currency Transactions

Transactions in foreign currencies are recorded at the rate of exchange ruling at the time of the transaction. All currency gains or losses are taken to the Income and Expenditure account. Assets and liabilities at the year-end are translated at rates ruling at the Balance Sheet date. Gains and losses are recorded under Other Costs.

1.6 Leases

GAD has an operating lease in respect of its Finlaison House premises. GAD's commitments are disclosed in note 23. There are no finance leases.

1.7 Work-in-Progress

Work-in-Progress is valued at the lower of cost (including appropriate overheads, multiplied by the number of rechargeable hours booked through the time recording system and not already charged to clients) or recoverable value. Information as to the value of work-in-progress is collected through the accounts system. Work is generally billed monthly, or in some cases on completion or at agreed break-points and therefore the work in progress total is the value of incomplete work outstanding at 31 March 2007.

1.8 Operating Income

Operating income is shown net of value added tax and comprises receipts from actuarial services provided, together with income from the sub-letting of spare accommodation in our leasehold property.

1.9 Administration Expenditure

Administration costs reflect the costs of running GAD, as defined under the Administration Cost Control Regime.

1.10 Capital Charge

A non-cash charge, reflecting the cost of capital utilised by GAD, is included in operating costs and calculated as 3.5 per cent on all assets less liabilities, except for:

- cash balances held within the Paymaster General's Bank account, where the charge is nil; and
- for accounts payable to the Consolidated Fund where the credit is at a nil rate.

1.11 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge on the PCSPS. The pension charge shown as an expense is the employer contribution for accruing pensions liability.

1.12 Early Departure Costs

GAD is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments. In accordance with the FReM, future provisions have been discounted on an annual basis.

1.13 Value Added Tax

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

2. ANALYSIS OF NET RESOURCE OUTTURN

| | £'000 | £'000 | £'000 | £'000 | £'000 | 2006-07 £'000 | £'000 | £'000 | 2005-06 £'000 |
|--|----------------|------------------|----------|----------------------------------|---------------|------------------|---|-----------------------|-----------------------|
| | Administration | Other Current | Grants | Gross Resource Expenditure | A in A | Net Total | Estimate Net Total compared with Estimate | Prior Year Outturn | Prior Year Outturn |
| Request for resources 1 | | | | | | | | | |
| Providing an actuarial consultancy service | 10,904 | - | - | 10,904 | 10,508 | 396 | 618 | 222 | - |
| Resource Outturn | 10,904 | - | - | 10,904 | 10,508 | 396 | 618 | 222 | - |

The Total Resource Requirement differs from the estimate as GAD's expenditure was lower, relative to income, than planned. The Net Cash Requirement differed from the estimate due to efficiency gains and increased income. Detailed explanations of the variances are given in the Operating and Financial Review.

3. RECONCILIATION OF OUTTURN TO NET OPERATING COST AND AGAINST ADMINISTRATION BUDGET

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

| | 2006-07 | | | 2005-06 |
|---------------------------|------------|--------------------|---|--------------------------|
| | Outturn | Supply Estimate | Outturn Compared with Estimate | Prior Year Outturn |
| | £'000 | £'000 | £'000 | £'000 |
| Net Resource Outturn | 396 | 618 | 222 | - |
| Prior Year Adjustments | - | - | - | (60) |
| Non-supply income (CFERs) | - | - | - | (411) |
| Non-supply Expenditure | - | - | - | - |
| Net operating cost | 396 | 618 | 222 | (471) |

(b) Outturn against Administration Budget

| | 2006-07 | | 2005-06 |
|--|------------|------------|-----------------------|
| | Budget | Outturn | Prior Year Outturn |
| | £'000 | £'000 | £'000 |
| Gross Administration Budget | 12,465 | 10,904 | 10,274 |
| Income allowable against the Administration Budget | (11,847) | (10,508) | (10,274) |
| Net outturn against final Administration Budget | 618 | 396 | - |

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

| | Notes | 2006-07 | | Net Total Outturn Compared with Estimate: Saving/ (Excess) |
|---|-------|------------|--------------------|--|
| | | Outturn | Supply Estimate | |
| | | £'000 | £'000 | |
| Resource Outturn | | 618 | 396 | 222 |
| Capital | | | | |
| Acquisition of Fixed Assets | 11,12 | 228 | 178 | 50 |
| Investments | | - | - | - |
| Non Operating A-in A | | | | |
| Proceeds of Fixed Assets Disposals | | - | - | - |
| Accruals Adjustments | | | | |
| Non Cash Items | 9 | (567) | (596) | 29 |
| Changes in Working Capital other than Cash* | | - | (421) | 421 |
| Changes in creditors falling due after one year | 16 | - | (231) | 231 |
| Use of Provision | 17 | 7 | 6 | 1 |
| Release from Revaluation Reserve | 19 | - | 4 | (4) |
| Excess cash receipts surrenderable to the Consolidated Fund | 5 | - | 664 | (664) |
| Net Cash Requirement | | 286 | - | 286 |

* Changes in Working Capital include movement of debt of £344,000 owed by the Office for National Statistics to the Department as at 31 March 2006. This debt was paid to GAD in 2006-07 and remitted to the Consolidated Fund.

5. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund.

| | Forecast 2006-07 | | Outturn 2006-07 | |
|---|------------------|----------|-----------------|------------|
| | Income | Receipts | Income | Receipts |
| | £'000 | £'000 | £'000 | £'000 |
| Excess Cash surrenderable to the Consolidated Fund | - | - | - | 664 |
| Other Non-operating Income and receipts not classified as A-in-A | | | 2 | 2 |
| Total income payable to the Consolidated Fund | - | - | 2 | 666 |

6. RECONCILIATION OF INCOME RECORDED WITHIN THE OPERATING COST STATEMENT TO OPERATING INCOME PAYABLE TO THE CONSOLIDATED FUND

| | 2006-07 | 2005-06 |
|--|----------|------------|
| | £'000 | £'000 |
| Operating income | | |
| Income authorised to be appropriated in Aid | 10,508 | 10,685 |
| | (10,508) | (10,274) |
| Operating income payable to the Consolidated Fund | - | 411 |

7. MACHINERY OF GOVERNMENT TRANSFER – RESTATEMENT OF OPERATING COST STATEMENT

The Occupational Pensions Scheme Survey function carried out by GAD was transferred to the Office for National Statistics (ONS) under a machinery of government change from 30 June 2006. This function was funded through the Supply Estimate which has been transferred to the ONS. Comparative figures have been restated to take account of the change.

i) Restatement of Comparatives

For the Period ending 31 March 2006

| | 2005-06 | |
|-------------------------------------|--|------------------------------|
| | Prior to Transfer of Function £'000 | Re-stated Amount £'000 |
| Administration Costs | | |
| Staff Costs | 7,188 | 7,138 |
| Other administration costs | 3,187 | 3,177 |
| Movement in Work in Progress | (101) | (101) |
| Gross Administration Costs | 10,274 | 10,214 |
| Operating Income | (10,685) | (10,685) |
| Net operating cost/(surplus) | (411) | (471) |

ii) Effect of the Transfer on Current Year

Transactions occurring during the year relating to the function transferred under the Machinery of Government transfer but prior to the date of transfer occurred have been transferred to the ONS.

For the Period ending 31 March 2007

| | 2006-07 | |
|-------------------------------------|---|------------------------------|
| | Outturn Prior to Transfer of Function £'000 | Re-stated Amount £'000 |
| Administration Costs | | |
| Staff Costs | 7,151 | 7,136 |
| Other administration costs | 3,597 | 3,594 |
| Movement in Work in Progress | 174 | 174 |
| Gross Administration Costs | 10,922 | 10,904 |
| Operating Income | (10,508) | (10,508) |
| Net operating cost/(surplus) | 414 | 396 |

For the work carried out by GAD in the 3 month period prior to the transfer of function, a balance of £18,000 has been recorded as a CFER debtor (refer to notes 14 and 16).

8. STAFF NUMBERS AND RELATED COSTS**a) Staff costs comprise:**

| | Permanently employed staff | 2006-07 Non- Executive Directors | Total | Restated 2005-06 Prior Year Outturn |
|-----------------------|---|---|---------------------|--|
| | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> |
| Wages and Salaries | 5,374 | 11 | 5,385 | 5,387 |
| Social Security Costs | 527 | 1 | 528 | 550 |
| Other Pension Costs | 1,223 | – | 1,223 | 1,201 |
| Total | <u>7,124</u> | <u>12</u> | <u>7,136</u> | <u>7,138</u> |

More details on remuneration policy can be found in the Remuneration Report.

For 2006-07, contributions of £1,222,530 (2005-06: £1,201,171) were paid to the PCSPS at rates prescribed by the Treasury on the advice of the Scheme Actuary. These rates were in the range of 17.1 – 25.5 per cent (2005-06: 16.2-24.6 per cent) of pensionable pay, according to salary level.

b) Average Number of persons employed

The average number of whole-time equivalent persons employed (including senior management), during the year was as follows:

| | <u>2006-07</u> | <u>2005-06</u> |
|--|-------------------|-------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Objectives | | |
| 1. To provide the actuarial advice to government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main pension service schemes) and other employee benefits | 80 | 77 |
| 2. To provide the social security projections, demographic analysis and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy. | 21 | 31 |
| Total | <u>101</u> | <u>108</u> |

9. NON-STAFF ADMINISTRATION COSTS

| | 2006-07 | 2005-06 Restated |
|--|--------------|---------------------|
| | £'000 | £'000 |
| Rates and building service costs | 651 | 604 |
| Rent of building | 1,414 | 1,389 |
| Photocopying | 18 | 12 |
| Consultancy | 105 | 21 |
| Agency and other temporary staff costs | 18 | 3 |
| Internal Audit Fees | 11 | – |
| Recruitment | 99 | 17 |
| Travel, subsistence and hospitality | 126 | 133 |
| Training | 119 | 144 |
| Subscriptions | 63 | 72 |
| Computer running costs | 182 | 184 |
| Telecommunications | 54 | 43 |
| Stationery and publications | 82 | 72 |
| Machinery of Government – Contribution to administration costs | (3) | (36) |
| Other costs | 59 | 14 |
| | 2,998 | 2,672 |
| Non cash items: | | |
| Depreciation and amortisation of fixed assets | 320 | 265 |
| Loss on revaluation of fixed assets | 50 | 82 |
| Loss on disposal of fixed assets | 83 | – |
| Cost of capital charge | 101 | 117 |
| Auditor's remuneration | 42 | 40 |
| Increase in provision for early retirement costs | – | 1 |
| | 596 | 505 |
| Total | 3,594 | 3,177 |

10. OPERATING INCOME

The Department has a small net resource requirement to cover "core" activities which cannot be ascribed to specific clients. These "core" activities relate principally to occupational pension scheme surveys and other work for ministers. The former activity was transferred to the Office for National Statistics in June 2006. This income and the matching expenditure relates to a subset of Objective 2

| | 2006-07 | | 2005-06 Restated | |
|--|------------------------|--|---------------------|-----------------|
| | Appropriated in Aid | Payable to the Consolidated Fund | Total Income | Total Income |
| | £'000 | £'000 | £'000 | £'000 |
| Operating income analysed by classification and activity, is as follows: | | | | |
| Administration Income | | | | |
| Receipts from other government departments | 6,393 | – | 6,393 | 6,115 |
| <i>Of which Receipts from: Sub Tenants</i> | 895 | – | 895 | 722 |
| <i>National Insurance Fund</i> | 190 | – | 190 | 874 |
| Receipts from the wider public sector and overseas clients | 4,115 | – | 4,115 | 4,570 |
| Total | 10,508 | – | 10,508 | 10,685 |

11. TANGIBLE FIXED ASSETS

| | Office Furniture and Equipment | Computer Equipment | Leasehold Building | Total 2006-07 |
|--|---|-------------------------------|-------------------------------|--------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | |
| At 1 April 2006 | 322 | 403 | 1,419 | 2,144 |
| Additions | 6 | 82 | 18 | 106 |
| Disposals | (51) | (110) | – | (161) |
| Revaluation | 5 | (30) | 150 | 125 |
| At 31 March 2007 | 282 | 345 | 1,587 | 2,214 |
| Depreciation | | | | |
| At 1 April 2006 | 158 | 189 | 192 | 539 |
| Charged in year | 27 | 97 | 81 | 205 |
| Disposals | (31) | (109) | – | (140) |
| Revaluation | 2 | (10) | 20 | 12 |
| At 31 March 2007 | 156 | 167 | 293 | 616 |
| Net Book Value at 31 March 2007 | 126 | 178 | 1,294 | 1,598 |
| Net book value at 31 March 2006 | 164 | 214 | 1227 | 1605 |
| Asset financing: | | | | |
| Owned | 126 | 178 | 1,294 | 1,598 |

12. INTANGIBLE FIXED ASSETS

| | Computer Software |
|--|------------------------------|
| | £'000 |
| Cost or Valuation | |
| At 1 April 2006 | 580 |
| Additions | 72 |
| Disposals | (132) |
| Revaluation | (40) |
| At 31 March 2007 | 480 |
| Amortisation | |
| At 1 April 2006 | 214 |
| Charged in year | 115 |
| Disposals | (70) |
| Revaluation | (10) |
| At 31 March 2007 | 249 |
| Net Book Value at 31 March 2007 | 231 |
| Net book value at 31 March 2006 | 366 |

13. WORK IN PROGRESS

| | 2006-07 | 2005-06 |
|-------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Value of time worked but not billed | 435 | 609 |

14. DEBTORS

| | <u>2006-07</u> | <u>2005-06</u> |
|--|---------------------|---------------------|
| | £'000 | £'000 |
| Trade debtors (i) | 2,179 | 2,495 |
| Trade Debtors in respect of machinery of government transfer to the Office for National Statistics | 18 | 344 |
| Deposits and advances | 39 | 35 |
| Prepayments | 137 | 108 |
| Other Debtors | 10 | 1 |
| Total (ii) | <u>2,383</u> | <u>2,983</u> |

(i) Trade debtors are shown net of a provision for bad debts of £24,183.08.

(ii) There were no debtors falling due in more than one year.

Debtors – Intra Government Balances

| | <u>2006-07</u> | <u>Re-stated 2005-06</u> |
|--|---------------------|------------------------------|
| | £'000 | £'000 |
| Balance with Central Government Bodies | 1,154 | 1,266 |
| Balance with NHS Trusts | 37 | 197 |
| <i>Sub-total intra-government balances</i> | <i>1,191</i> | <i>1,463</i> |
| Balance with bodies external to government | 1,192 | 1,520 |
| Total | <u>2,383</u> | <u>2,983</u> |

15. CASH AT BANK AND IN HAND

| | <u>2006-07</u> | <u>2005-06</u> |
|--|-------------------|-------------------|
| | £'000 | £'000 |
| Balance at 1 April | 760 | 413 |
| Net change in cash balances | 190 | 347 |
| Balance at 31 March 2007 | <u>950</u> | <u>760</u> |
| The following balances at 31 March 2007 are held at: | | |
| Office of H M Paymaster General plus cash in hand | 950 | 760 |
| | <u>950</u> | <u>760</u> |
| The balance at the 31 March 2007 comprises: | | |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 286 | 349 |
| Other amounts due to the Consolidated Fund | 664 | 411 |
| Total | <u>950</u> | <u>760</u> |

The Office of HM Paymaster General provides a current account banking service. During the year, the Department held a commercial bank account and a small amount of cash in hand (at year end this was £73.12).

The balance of funds held in the commercial bank account on 31 March 2007 was £11,348.39 and this represents third party deposits (refer to Note 26 for further information).

The balance of funds held in the HM Paymaster General account on 31 March 2007 was £949,468.16.

16. CREDITORS

| | <u>2006-07</u> | <u>2005-06</u> |
|--|----------------|----------------|
| | £'000 | £'000 |
| Amounts falling due within one year | | |
| VAT payable | 556 | 444 |
| Trade creditors | 16 | 137 |
| Accommodation Creditor | 87 | 85 |
| Accruals | 43 | 45 |
| Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund | | |
| – received | – | 411 |
| – receivable (i) | 18 | 344 |
| Consolidated Fund Creditor for cash unspent at year end | 950 | 349 |
| | <u>1,670</u> | <u>1,815</u> |
| Amounts falling due in more than one year | | |
| Accommodation Creditor | 1,439 | 1,208 |
| | <u>3,109</u> | <u>3,023</u> |

(i) Creditors includes a balance of £18,000 due from the Office for National Statistics resulting from the Machinery of Government transfer which becomes due to the Consolidated Fund upon receipt (refer Notes 14 and 16).

Creditors – Intra Government Balances

(including Amounts falling due in more than one year)

| | <u>2006-07</u> | <u>2005-06</u> |
|--|----------------|----------------|
| | £'000 | £'000 |
| Balance with Central Government Bodies | 1,535 | 1,675 |
| Balance with bodies external to government | 1,574 | 1,348 |
| | <u>3,109</u> | <u>3,023</u> |

GAD has an agreement with HM Revenue and Customs (formerly HM Customs & Excise) to pay over only that VAT on invoices paid by clients and to exclude VAT due to them on invoices issued but unpaid by clients.

17. PROVISION FOR LIABILITIES AND CHARGES

The Department's provision for liabilities and charges comprised a provision for early retirement costs as follows:

| | <u>2006-07</u> | <u>2005-06</u> |
|----------------------------|----------------|----------------|
| | £'000 | £'000 |
| Balance at 1 April | 6 | 14 |
| Increase in provision | – | 1 |
| Payments made in year | (6) | (9) |
| Balance at 31 March | <u>–</u> | <u>6</u> |

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

18. GENERAL FUND

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

| | 2006-07 | Re-stated 2005-06 |
|--|----------------|------------------------------|
| | £'000 | £'000 |
| General Fund at 1 April | 3,212 | 3,019 |
| Prior Period Adjustment | – | (60) |
| | 3,212 | 2,959 |
| Net Parliamentary Funding | | |
| Drawn Down | 286 | 729 |
| Deemed Supply | – | – |
| Supply Creditor – current year | (286) | (349) |
| Excess Cash surrenderable to the Consolidated Fund | (664) | – |
| CFER Creditor | (18) | (344) |
| Net Transfer from Operating Activities | | |
| Net Operating Cost | (396) | 471 |
| Other CFER | – | (411) |
| Non Cash Charges (See Note 9) | | |
| Cost of capital charge | 101 | 117 |
| Audit fee | 42 | 40 |
| Net Increase/(Decrease) in General Fund | (935) | 253 |
| General Fund at 31 March | 2,277 | 3,212 |

19. REVALUATION RESERVE

| | 2006-07 | 2005-06 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Balance as at 1 April | 82 | 13 |
| Arising from revaluation during the year | 133 | 69 |
| Arising on disposals during through the year | (4) | – |
| Balance At 31 March | 211 | 82 |

The Revaluation Reserve reflects the unrealised elements of the cumulative balance of indexation and revaluation adjustments.

20. NOTES TO THE CASH FLOW STATEMENT**a. Reconciliation of operating cost to operating cash flows**

| | <u>2006-07</u> | <u>2005-06</u> |
|--|-----------------------|---------------------|
| | £'000 | £'000 |
| Net Operating Cost | 396 | (428) |
| Restatement adjustment | – | 17 |
| Adjustments for non-cash transactions | (596) | (505) |
| Release from Revaluation Reserve | 4 | – |
| Increase/(Decrease) in Work in Progress | (174) | 101 |
| Increase/(Decrease) in Debtors | (600) | 906 |
| Decrease/(Increase) in Creditors | 9 | (106) |
| Increase/(Decrease) in creditors falling due in more than one year | (231) | (384) |
| Adjustments for use of Provision | 6 | 9 |
| Net cash (inflow)/outflow from operating activities | <u>(1,186)</u> | <u>(390)</u> |

b. Analysis of Capital Expenditure and Financial Investment

| | <u>2006-07</u> | <u>2005-06</u> |
|-----------------------------------|-------------------|-------------------|
| | £'000 | £'000 |
| Tangible Fixed Assets additions | 106 | 173 |
| Intangible Fixed Assets additions | 72 | 186 |
| Total Additions | <u>178</u> | <u>359</u> |

c. Analysis of Financing

| | <u>2006-07</u> | <u>2005-06</u> |
|---|---------------------|-------------------|
| | £'000 | £'000 |
| From the Consolidated Fund (Supply): current year | 286 | 729 |
| Cash surrender of prior year's unspent supply | (1,104) | (413) |
| Net Financing | <u>(818)</u> | <u>316</u> |

d. Reconciliation of net cash requirement to increase/(decrease) in cash

| | <u>2006-07</u> | <u>2005-06</u> |
|--|---------------------|---------------------|
| | £'000 | £'000 |
| Net Cash Requirement for the year (see Statement of Parliamentary Supply) | – | 380 |
| From the Consolidated Fund (Supply): current year | (286) | (729) |
| Receipt of Prior Year debtor resulting from a machinery of government transfer | (344) | – |
| Cash surrender of prior year's unspent supply | 1,104 | 413 |
| Amounts due to the Consolidated Fund received and not paid over | (664) | (411) |
| (Increase)/Decrease in Cash | <u>(190)</u> | <u>(347)</u> |

21. NOTES TO THE OPERATING COST STATEMENT BY DEPARTMENTAL OBJECTIVES**a. Current Expenditure has been allocated as follows:**

| | <u>2006-07</u> | <u>Restated 2005-06</u> |
|---------------|----------------------|-----------------------------|
| | £'000 | £'000 |
| Objective One | 8,048 | 7,112 |
| Objective Two | 2,856 | 3,102 |
| Total | <u>10,904</u> | <u>10,214</u> |

b. Capital employed by Departmental Objectives at 31 March 2007 has been allocated as follows:

| | <u>2006-07</u> | <u>2005-06</u> |
|---------------|---------------------|---------------------|
| | £'000 | £'000 |
| Objective One | 1,836 | 2,220 |
| Objective Two | 652 | 1,074 |
| Total | <u>2,488</u> | <u>3,294</u> |

Administration costs have been allocated to objectives, wherever possible, in accordance with the Department's normal management accounting policies, or have been allocated on the basis of staff numbers attributed to objectives. GAD's capital is employed exclusively for administration purposes: its distribution between objectives is treated in exactly the same way as the related gross administration cost.

22. CAPITAL COMMITMENTS

The Department is currently committed to capital investment of £Nil in 2007-08. (2005-06: £32,986.00)

23. COMMITMENTS UNDER OPERATING LEASES**a) Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below**

| | <u>2006-07</u> | <u>2005-06</u> |
|--|------------------|------------------|
| | £'000 | £'000 |
| Land and Buildings | | |
| Lease expiring in more than five years | <u>1,419,450</u> | <u>1,384,852</u> |

b) Other Commitments

| | <u>2006-07</u> | <u>2005-06</u> |
|----------|----------------|----------------|
| | £'000 | £'000 |
| Software | <u>8,000</u> | <u>8,000</u> |

24. FINANCIAL INSTRUMENTS

FRS13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities, trading with other government Departments and the way in which it is financed, GAD is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

As permitted by FRS13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

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

Interest rate risk

The Department's financial assets and liabilities are not exposed to interest rate risks.

Interest rate profile

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

Table 1: Financial liabilities (i)

| | Total | Floating-rate financial liabilities | Fixed-rate financial liabilities | Non- interest bearing financial liabilities | Weighted average interest rate | Fixed-rate financial liabilities Weighted- average period for which rate is fixed | Non-interest bearing financial liabilities Weighted- average period until maturity |
|-----------------------------|-------|---|--|---|---|--|--|
| | £'000 | £'000 | £'000 | £'000 | % | Years | Years |
| At 31 March 2007: | | | | | | | |
| Sterling | – | – | – | – | – | – | – |
| Other | – | – | – | – | – | – | – |
| Gross financial liabilities | – | – | – | – | – | – | – |

Note (i) The Department's provision was completely utilised in 2006-07.

Table 2: Financial assets

| | Total £'000 | Floating- rate financial assets £'000 | Fixed-rate financial assets £'000 | Non- interest bearing financial assets (i) £'000 | Weighted average interest rate % | Fixed-rate | Non-interest |
|--------------------------|----------------|---|--|---|--|--|--|
| | | | | | | financial assets Weighted- average period for which rate is fixed Years | bearing financial assets Weighted- average period until maturity Years |
| At 31 March 2007: | | | | | | | |
| Sterling | 950 | – | – | 950 | – | – | Note (i) |
| Other | – | – | – | – | – | – | – |
| Gross financial assets | 950 | – | – | 950 | – | – | – |

(i) The Department's non-interest bearing financial assets comprise cash at bank and in hand of £949,541.28.

Foreign currency risk

Fees payable in foreign currency amounted to 6.6% of total turnover in 2006-07. The policy on foreign currency receipts is to account for them at the conversion value on receipt, accepting fluctuations in currency movements and not hedging against these movements. Foreign currency expenditure is minor.

Fair values

Set out below is a comparison by category of book values and fair values of the Department's financial assets and liabilities as at 31 March 2007.

Table 3: Fair Values

| | Book value | Fair value (i) | Basis of fair Valuation |
|---------------------------------------|---------------|-------------------|-------------------------------|
| | £'000 | £'000 | £'000 |
| At 31 March 2007 | | | |
| Primary financial instruments: | | | |
| Financial assets: | | | |
| Cash at bank | 950 | 950 | Note (i) |
| Financial liabilities: | | | |
| Provisions | – | – | Note (ii) |

Note (i) Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 3.5% a year in real terms.

Note (ii) The Department's provision was completely utilised in 2006-07.

25. RELATED PARTY TRANSACTIONS

GAD has had a significant number of transactions with government departments and other central government bodies. Major clients using the Department's services included the Department for Work and Pensions, the Cabinet Office, the Ministry of Defence, the Home Office, HM Treasury, HM Revenue & Customs and the Department for Education and Skills.

A summary of Operating Income from Government and non-government bodies is shown at Note 6. Note that receipts from other government departments include rent and Facilities Management charges received from the Commission for Social Care Inspection (CSCI) and the Human Tissue Authority (HTA) as sub-tenants of the property of Finlaison House. The HTA also paid GAD for IT, Finance and other services. In 2006-07 the total net income from these sub-tenants was some £895,000.

Details of balances outstanding with other government departments are shown in the Debtors and Creditors Notes 14 and 16.

None of the Management Board Members, key managerial staff or other related parties has undertaken any material transactions with GAD during the year.

26. THIRD PARTY ASSETS

| | <u>2006-07</u> |
|---|------------------|
| | <u>£'000</u> |
| Opening balance at 1 April 2006 | 14 |
| Net receipts (payments) | (3) |
| Closing balance at 31 March 2007 | <u>11</u> |

The Department has a custodial role to ensure the safekeeping of client deposits. As at 31 March 2007, these amounted in total to £11,348.39 (31 March 2006: £14,446.34). An analysis of the movements on these accounts is shown in the table above.

27. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

No entities, other than GAD itself, fall within the Departmental Boundary.

28. EVENTS AFTER THE BALANCE SHEET DATE

On 5 June 2007, the Government Actuary, Chris Daykin, announced his intention to retire from his position at the end of September 2007.

On 29th June 2007 Kitty Ussher MP replaced Ed Balls MP as Economic Secretary to the Treasury with Ministerial responsibility for the Government Actuary's Department

29. DATE OF AUTHORISATION OF ACCOUNTS

This set of financial statements is due to be authorised on the day that it is laid before Parliament on 24 July 2007.

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