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

Cabinet Office

Annual Report & Resource Accounts 2002-03

LONDON: The Stationery Office
HC 185

29 January 2004
£11.00

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Annual Report & Resource Accounts 2002-03

(For the year ended 31 March 2003)

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

Ordered by the House of Commons to be printed 29 January 2004

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Contents

Annual Report

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

The size and structure of the Cabinet Office changed following machinery of government changes and the appointment of new Ministers, a new Cabinet Secretary and a new Permanent Secretary.

The machinery of government changes involved the establishment of the Office of the Deputy Prime Minister as a separate Department and the transfer thereto from the Cabinet Office of the Regional Co-ordination Unit and the Government Offices for the Regions, the Deputy Prime Minister's Central Policy Group and the Social Exclusion Unit. A number of units transferred to the Department for Trade and Industry; these being the Women and Equality Unit; Equality Co-ordination Unit; and two Non-Departmental Public Bodies, the Equal Opportunities Commission and the Women's National Commission. The Government News Network transferred to the Cabinet Office from the Central Office of Information.

The Centre for Management and Policy Studies (CMPS) ceased to be a separate division of the Cabinet Office, and no longer produces its own annual report and accounts. The Policy Studies Directorate joined the Strategy Unit and the rest of CMPS (incorporating the Civil Service College) joined the Corporate Development Group which lies within the Cabinet Office. CMPS remains under Net Running Cost Control.

Operating and Financial Review

The business, its objectives and strategy

The aim of the Cabinet Office is to support the Government's delivery and reform programme. This is reflected in its Public Service Agreement (PSA) objectives and targets, which were revised in the course of the 2002 Spending Review and new PSA targets, reflecting the new structure, were adopted during 2002-03.

The Cabinet Office's objectives following the 2002 Spending Review were as follows:

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

Objective 2 To support the Government in transacting its business;

Objective 3 To help deliver key public service priorities;

Objective 4 To lead the reform programme for public services; and

Objective 5 To co-ordinate security, intelligence and civil contingencies matters to protect the UK against disruptive challenges.

A full description of the work of the units within the Cabinet Office can be found in the 2003 *Departmental Report (Cm 5926 – May 2003*). Schedule 5 of the Resource Accounts provides information on resource outturn for each objective.

Operating Review

The 5 Cabinet Office objectives are underpinned by 6 specific **PSA targets**:

Target 1 Ensure departments **deliver better regulation** through:

- full compliance with the Regulatory Impact Assessment process;
- delivering the commitments in the Regulatory Reform Action Plan, including over 60 Regulatory Reform Orders by 2005.

Target 2 Improve public services by working with departments to help them **meet their PSA targets** consistently with the fiscal rules. (Joint target with HM Treasury.)

Target 3 Ensure departments meet the Prime Minister's targets for **electronic service delivery** by Government: 100 per cent capability by 2005 with key services achieving high levels of use.

Target 4 Ensure that the **Civil Service becomes more open and diverse** by achieving by 2004-05 the agreed targets of: 35% Senior Civil Service (SCS) to be women; 25% of top 600 posts to be filled by women; 3.2% of the SCS to be from ethnic minority backgrounds and 3% of the SCS to be people with disabilities.

Target 5 Improve public services by working with departments to **redesign services around the needs of customers** and embed the four principles of public service reform with progress measured by survey evidence.

Target 6 Achieve a **2.5 per cent saving per year on administrative resources**.

The *2003 Departmental Report (Cm 5926)*, published in May 2003 and the *Autumn Performance Reports - Cm 5732* published in December 2002 and *Cm 6055* published in December 2003 - provide details of progress against these targets and the PSA Technical Note contained in the Autumn Performance Report provides details of how progress against targets is measured.

Performance against Parliamentary Control totals

Machinery of Government changes caused a reduction in the size of Cabinet Office in terms of both resource Departmental Expenditure Limits (DEL) and staff numbers, mainly as a result of the transfer of the Government Offices for the Regions to the Office of the Deputy Prime Minister. The first full-year consequences of the terrorist attacks in the United States, however, meant that additional funds were drawn down from the DEL Reserve and it was necessary to transfer funding from the capital budget to the resource budget.

Authority was sought in the Spring Supplementary Estimate (HC 424) for total resource expenditure being resource spend £356.7 million, capital spend £69.7 million and net cash requirement £399.1 million (*see Figure 1.*).

Final Outturn for 2002-03 recorded an overall saving on net cash requirement of £26.3 million and a saving on Capital Outturn of £1.3 million. Net Resource Outturn recorded a net over-spend of £2.4 million against voted net resource requirement and the Department incurred an Excess Vote.

Excess Vote arose partly on the impairment of e-Government assets and partly on excess Appropriations in Aid relating to those bodies under net administration cost control.

An impairment of £4.5 million is recorded within Annually Managed Expenditure (AME) and, subsequent to the year-end, Treasury approval for virement has been obtained in order to apply under-spends falling within the Departmental Expenditure Limit (DEL) to reduce the over-spend within AME leaving a residual excess net resource requirement of £1.4 million. (*Further detail is provided at Notes 1.3 & 6 & 11*).

Excess Appropriations in Aid of £1 million arose from the fact that the bodies under net control, CMPS and GCDA, increased their expenditure and received offsetting income as permitted under the net control regime but without correspondingly increasing the Appropriations in Aid limit in order to retain the income in Parliamentary terms; this has resulted in excess Appropriations in Aid and, accordingly, excess net resource requirement of £1 million. (*Further detail is provided in Schedule 1 Analysis of Income payable to the Consolidated Fund and at Note 11*).

The combined effect of excess expenditure arising from the impairment as explained above, and from expenditure in excess of authorised Appropriations in Aid is a total of £2.4 million excess net resource requirement. Parliamentary approval is being sought to apply the excess Appropriations in Aid against the Excess Vote thus reducing to £1.4 million the additional resources required from Parliament.

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

Figure 1.

	Estimate	Outturn	Variance Saving/(Excess)
	£ million	£ million	£ million
Gross Administration Cost Limit	**169.1**	**164.5**	**4.6**
Net Administration Cost Limit	**1.0**	**0.9**	**0.1**
Net Resource Outturn:			
Resource Departmental Expenditure Limit (DEL)	208.6	206.8	1.8
Resource Annually Managed Expenditure (AME)	32.0	36.1	(4.1)
Resource Budget Outturn	240.6	242.9	(2.3)
Outside DEL & AME	0.4	0.5	(0.1)
Net Operating Cost *before consolidation eliminations*	241.0	243.4	(2.4)
Transfer of Estimate cover in respect of Machinery of Government changes	115.7	115.7	-
Net Resource Outturn – Schedule 1	**356.7**	**359.1**	**(2.4)**
Capital DEL and Budget Outturn :	69.1	67.8	1.3
Transfer of Estimate cover in respect of Machinery of Government changes	0.6	0.6	-
Net Voted Capital Outturn – Schedule 1	**69.7**	**68.4**	**1.3**
Remove non-cash transactions included in:			
Resource DEL	(5.3)	(12.4)	7.1
Resource AME	(32.0)	(36.2)	4.2
Working Capital adjustments	10.0	(6.1)	16.1
Adjustments from Resource to Cash Spend	**(27.3)**	**(54.7)**	**27.4**
Net Cash Requirement - Schedule 1	**399.1**	**372.8**	**26.3**

Investment for the Future

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

Financial Review

The majority of the department's funding is provided by Parliament. The department's targets and objectives for the next three years were set in the 2002 Spending Review and changes to these are not anticipated before the 2004 Spending Review.

The *Departmental Report (Cm 5926, May 2003)* outlines the activities funded by the Cabinet Office and details the contributions made by each part of the office towards departmental objectives.

Post Balance Sheet Events

In November 2003, the Cabinet Office embarked on a Better Cabinet Office Programme to achieve greater operational efficiency for the medium to long term and to maintain and enhance the Department's reputation for the delivery of high-quality public services. A limited amount of restructuring is fundamental to the success of this Programme and the Treasury has made additional funding of £3.5million available to enable the Cabinet Office to run an early departure scheme and to establish a re-skilling programme.

Pensions

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

Remuneration of Ministers and the Cabinet Office Management Board

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

Ministers

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

The Rt Hon John PRESCOTT MP	**Deputy Prime Minister & First Secretary of State** *until 29th May 2002*
The Rt Hon The Lord WILLIAMS of MOSTYN QC	**Leader of the House of Lords & Lord Privy Seal**
The Rt Hon The Lord MacDONALD of TRADESTON CBE	**Minister for the Cabinet Office & Chancellor of the Duchy of Lancaster**
Douglas ALEXANDER Esq MP	**Minister of State** *from 30th May 2002*
The Rt Hon Charles CLARKE	**Minister without Portfolio & Party Chair** *until 24th October 2002*
The Rt Hon Dr John REID	**Minister without Portfolio & Party Chair** *from 25th October 2002* *not remunerated*
Ms Barbara ROCHE MP	**Minister of State** *until 29th May 2002*
Christopher LESLIE Esq MP	**Parliamentary Secretary** *until 29th May 2002*

On 13th June 2003, Douglas Alexander was appointed Minister for the Cabinet Office and Chancellor of the Duchy of Lancaster.

Secretary to the Cabinet

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

Sir Richard WILSON	**Secretary to the Cabinet and Head of the Home Civil Service** *until 1st September 2002*
Sir Andrew TURNBULL	**Secretary to the Cabinet and Head of the Home Civil Service** *from 2nd September 2002*

Cabinet Office Management Board

The role of the Cabinet Office Management Board was to give corporate strategic leadership to the Department. Subsequent to the financial year-end, it has been replaced by the Cabinet Office Strategy Board.

The Members of the Management Board during the year were:

Professor Ron AMANN	**Director General, Centre for Management and Policy Studies** *until 23rd June 2002*
Geoff ARMSTRONG CBE	**Non-Executive Member**
Leonie AUSTIN	**Director of Communication**
Millie BANERJEE CBE	**Non-Executive Member**
Professor Michael BARBER	**Prime Minister's Chief Adviser on Delivery** *from 24th July 2002*
Paul BRITTON	**Head of Economic and Domestic Affairs Secretariat** *until 23rd June 2002*
Helen GHOSH	**Director of Machinery of Government Secretariat**
Mike GRANATT	**Head of the Government Information and Communication Service**
Jeremy HEYWOOD	**Head of Policy Directorate and Principal Private Secretary to the Prime Minister**
Mavis MCDONALD	**Chair and Permanent Secretary to the Cabinet Office** *until 23rd June 2002*
Sir David OMAND	**Chair and Permanent Secretary and Security and Intelligence Co-ordinator** *from 24th June 2002*
Alice PERKINS	**Head of Corporate Development Group**
Andrew PINDER	**e-Envoy**
Rob SMITH	**Director General, Regional Co-ordination Unit** *until 23rd June 2002*
Peter WARDLE	**Director of Corporate Services Group**

Members of the Management Board were appointed by the Permanent Secretary to assist in the effective corporate governance of the Cabinet Office. Membership was held by the individual, and was not associated with any post they held within a Cabinet Office management unit. Termination of appointment was at the discretion of the Permanent Secretary. Two non-executive members were similarly appointed.

The Government Car and Despatch Agency has its own management board, which is detailed in its own annual report and accounts for 2002 – 2003.

Colin Balmer took up the new post of Managing Director of the Cabinet Office in July 2003. He is responsible to the Minister for the Cabinet Office, Douglas Alexander, and reports to the Cabinet Secretary and Head of the Home Civil Service, Sir Andrew Turnbull. He is the Permanent Head of the Cabinet Office and is also accountable to Parliament as Accounting Officer for the Cabinet Office Account and for the Civil Superannuation Account.

The Permanent Head of the Cabinet Office is appointed by the Prime Minister, on the advice of the Cabinet Secretary and Head of the Home Civil Service. The appointment is not time-limited. Mechanisms for termination of the appointment are as set out in the Civil Service Code.

Policies on Equal Opportunities & Disability

The Cabinet Office is an equal opportunities employer and is committed to providing equal opportunities for all, irrespective of age, disability, ethnicity, gender, religion, sexuality, transgender and work patterns.

The Cabinet Office will not tolerate any form of unfair discriminatory behaviour, nor harassment, bullying or victimisation by units, teams, managers or individuals.

Cabinet Office policies and practices reflect the Civil Service Management Code and relevant UK legislation, including legislation implementing European Union directives.

Employee Consultation

The Cabinet Office recognises the importance of good employee relations to the achievement of its objectives and consultation with employees and their representatives is key to this.

Regular communication and consultation takes place with staff through a variety of medium including intranet, weekly staff newsletter and team briefing meetings. Larger consultation exercises take place on important developments.

On 27th August 2003, the Department signed a partnership agreement with the Trade Unions.

There are also diversity networks which represent particular groups of staff including disabled and ethnic minority staff and the department actively uses these networks to consult on particular issues.

Policy on Payment of Suppliers

The Cabinet Office is committed to the CBI code on prompt payment and aims to pay all invoices within the terms of the contract, usually 30 days of receipt of a valid invoice. During the year the Department paid 95.46% of invoices within 30 days (2001-02: 95.75%). The department paid £30 interest charges levied on late payment of invoices for the year ended 31st March 2003.

Basis of Accounts

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

Auditors

The financial statements are audited by the Comptroller and Auditor General.

Colin Balmer
Accounting Officer

23rd January 2004

Statement of Accounting Officer's Responsibilities

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

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

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

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

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

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

Statement on Internal Control

Scope of responsibility

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

The purpose of the system of internal control

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

Capacity to handle risk

A corporate governance seminar for senior managers was held in April 2002. A number of risk management workshops were held, with invitations extended to all Management Units. Guidance on corporate governance requirements including risk management is available on the Intranet.

The risk and control framework

In the accounting period, the Management Board considered risk management and internal control on a regular basis throughout the year, including periodic reports from the chair of the Audit and Risk Committee concerning internal control and regular reports from managers on the steps they are taking to manage risks in their areas of responsibility. Risk management has also been incorporated more fully into the corporate planning and decision making processes of the department. Management Units are required to record risk on the Monitoring and Reporting System.

The department also has the following internal control systems in place:

- an annual budget reviewed and endorsed by the Board;
- the department is working towards the production of robust management accounts and the earlier completion of the annual accounts in order to better inform the planning process;
- quarterly reviews of performance and expenditure;
- a framework document setting out delegated authorities and the publication of an annual report and accounts for the Government Car and Despatch Agency; and
- mandatory six monthly stewardship reports from all Management Units.

The department has an internal audit unit, which carries out its work in accordance with the Government Internal Audit Standards. The work of the internal audit unit is informed by an analysis of the risk to which the Department is exposed and annual internal audit plans are based on this analysis. Although this is not a full risk-based assessment, it is increasingly informed by risk analysis and both that analysis and the resultant internal audit plans are discussed and endorsed by the department's Audit and Risk Committee and approved by me. The Audit and Risk Committee is attended by representatives of the National Audit Office

(NAO) and chaired by a non-executive director. At least annually, the Internal Audit Director (IAD) provides me with a report on internal audit activity in the department which includes the IAD's independent opinion on the adequacy and effectiveness of the department's system of internal control. For 2002-03, the IAD has been able to give me reasonable assurance that the department's framework of control is sound. However, areas for improvement have been identified including contract management, risk management, business continuity planning, the administration of Cabinet Office pensions and more generally, demonstrating value for money. There is also work to be done in improving financial controls in relation to debt management.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit and Risk Committee which oversees the work of the internal auditors and the executive managers within the department, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I also take assurance from the Statement on Internal Control produced by the Government Car and Despatch Agency and published with their annual report and accounts. The individual statements of assurance that I have received from Heads of Management Units have provided reasonable assurance that the systems of internal control are sound and operating effectively. However, there remain sizeable gaps in the operation of risk management systems which are being addressed as part of the overall action plan to ensure full implementation of an effective system of internal control. There are also significant improvements to be made in the accounting system and in the processes and procedures that support the production of the annual account.

Planned improvements

I aim to have the necessary risk management and review processes in place by March 2004 which will enable the department to complete a full statement of internal control for the year ending 31 March 2005. A review of the departmental risk framework is underway and implementation of an agreed action plan will take place in the period up to March 2004.

A number of factors have contributed to the very late production of these accounts and my breach of the statutory timetable for signing them. The most significant of these were: a major reduction of staffing levels in the Financial Management Division in April 2003, with the consequential effect of a lack of staff with sufficient accounting and financial management skills to prepare the accounts; the absence of fully automated processes for the production of annual accounts; and insufficient appreciation by management units of the importance of providing information held locally but required for final accounts. In order to avoid recurrence of this unacceptable situation in future, I am actively taking steps to ensure that the accounts team are fully staffed and trained for the work. I plan to make significant changes to the accounting system to facilitate production of automated monthly accounts which should lead to earlier closure of the annual account and plan to improve the quality and timeliness of information flows between the managing units and central finance.

Colin Balmer 23rd January 2004
Accounting Officer

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

I certify that I have audited the financial statements on pages 19 to 58 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 27 to 31.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements in accordance with Government Resources and Accounts Act 2000 and treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the 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 mis-statements or material inconsistencies with the financial statements.

I review whether the statement on pages 11 to 12 reflects the department's compliance with Treasury's guidance entitled *"Corporate Governance: Statement on Internal Control"*. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of opinion

I conducted my audit in accordance with auditing standards issued by the United Kingdom Auditing Practices Board, except that the scope of my work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

However, the evidence available to me was limited because the Cabinet Office was unable to submit its Resource Accounts to me in time for me to perform an audit within the statutory timetable set out in the Government Resources and Accounts Act 2000.(the Act) In addition the Cabinet Office had insufficient staff available to provide my staff with all the information and explanations that I considered necessary for the purposes of my audit within the time allowed by the statutory timetable.

The Cabinet Office failed to submit its Resource Accounts, signed by the Accounting Officer to me by the statutory date set out in the Act of 30 November 2003. Under the same Act I am required to send a copy of the audited and certified accounts to Treasury by 15 January 2004 and the Treasury is required to lay the certified accounts before the House of Commons by 31 January 2004.

The Cabinet Office presented me with its first full set of draft accounts on 12 January 2004 and the Accounting Officer signed the final Resource Accounts on 23 January 2004.

Opinion: disclaimer on view given by financial statements

Because of the effect of the late submission of accounts to me for audit and the limitation in the other evidence available to me as set out above I am unable to form an opinion as to whether:

- the financial statements give a true and fair view of the state of affairs of the Cabinet Office at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the requirements of the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury;

- except for the excess expenditure referred to below, 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.

Due to the late submission of the accounts I have not been able to obtain all of the information and explanations that I required for the purposes of my audit. I have also not been able to determine whether proper accounting records have been maintained.

Expenditure in excess of amounts authorised

Parliament authorised a Request for Resources for the Cabinet Office in the Appropriation Acts 2002 and 2003. Net resources of £356.7m were authorised for Request for Resources 1. Against this authorised limit, the department incurred net resource expenditure of £359.1m as shown in Schedule 1 to the Resource Accounts for 2002-03 and have thus exceeded the authorised limit.

Details of these matters are explained more fully in my Report at pages 15 to 18.

John Bourn
Comptroller and Auditor General
27 January 2004

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

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

Introduction

1. The aim of the Cabinet Office (the Department) is to support the Government's delivery and reform programme. This is reflected in its objectives, set following the 2002 Spending Review, which were as follows:

- to support the Prime Minister in leading the Government;
- to support the Government in transacting its business;
- to help deliver key public service priorities;
- to lead the reform programme for public services; and
- to co-ordinate security, intelligence and civil contingencies matters to protect the UK against disruptive challenges.

2. On 29 May 2002 the Prime Minister announced changes to his Cabinet and departmental responsibilities. The Machinery of Government changes involved the establishment of the Office of the Deputy Prime Minister as a separate Department and this resulted in the transfer from the Cabinet Office of the Regional Co-ordination Unit and the Government Offices for the Regions to the Office of the Deputy Prime Minister. A number of other units and Non-Departmental Public Bodies were transferred to the Department for Trade and Industry, while the Government News Network was transferred to the Cabinet Office from the Central Office of Information.

3. The resource accounts of the Cabinet Office consolidate the account of the core Department with those of the Government Car and Despatch Agency, the Government News Network and the Centre for Management and Policy Studies. The latter operates as a separate financial reporting entity, but no longer produces its own report and accounts.

Our responsibilities as auditor

4. I am required, under Auditing Standards, to obtain evidence to give reasonable assurance that the Department's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

5. Under the Government Resource and Accounts Act 2000, the Accounting Officer of the Department is required to submit to me the signed accounts for his department by 30 November in the year following that to which the accounts relate. I am required by the Act to certify the accounts by the following 15 January and to render them to the Treasury. The Treasury is required to lay the accounts before the House of Commons by 31 January.

6. My staff progressively received components of the account from mid-December. The Department presented me with its first full set of draft accounts on 12 January 2004 and as the Balance Sheet of the accounts shows, the Department's Accounting Officer signed these on 23 January 2004, some weeks after the statutory deadline for submission. The delay in submission of the accounts has resulted in my staff having insufficient time to complete an audit within the statutory timetable, and to gain the necessary audit evidence in order for me to reach an opinion on them.

7. As a result of the limitation on the scope of my work I am unable to express an opinion on the accounts. In addition, although I do not express an opinion on the accuracy of Net Resource Outturn, schedule 1 to the accounts shows that the Department’s own assessment is that it breached the resource estimate that was voted by Parliament. The excess expenditure of £1,344,570.34 would therefore constitute irregular expenditure, and further Parliamentary authority to make good the excess will need to be sought.

Purpose of Report

8. The purpose of my report is to:

- explain the reasons for the Department's delay in providing me with accounts for audit and why I have disclaimed my opinion on the accounts;
- provide background to the reasons for the Department's assessment that it overspent and to provide information on the extent and nature of this apparent breach of Parliamentary control; and
- indicate the steps it is taking to address the weaknesses in the system of control that led to this situation and to prevent a recurrence in the future.

Reasons for the delay in submission of signed accounts

9. The Department's difficulties in preparing complete and reliable resource accounts within the statutory timetable are attributable to a number of factors:

- Delays in starting the preparation of the 2002-03 accounts, caused by the residual work required following completion of the 2001-02 accounts;
- A significant reduction in the number of staff employed in the Department's Financial Management Division in April 2003 with a number of consequential results, including unfilled vacancies, high staff turnover among the remaining staff and loss of institutional memory. A number of the remaining staff were temporary contract staff, employed specifically to assist in the preparation of the resource accounts, but by their very nature these staff are liable to move on to other assignments at short notice, which made it very difficult for the Department to maintain stability and continuity. This led to a critical shortage of staff with sufficient accounting and financial management skills to prepare resource accounts, which included the additional complexity of Machinery of Government changes;
- The absence of an automated process to assist the production of the Department's annual accounts;
- Heavy reliance on processes and procedures outside the main accounting system, requiring significant investment of very limited staff resources. These included the need to design and implement a new financial accounts consolidation package and the need to develop the fixed asset register for the department that would underpin the production of information for the annual accounts;
- Insufficient appreciation by staff employed in areas of the Department outside the Financial Management Division of the importance of providing timely and accurate information that was required for the annual accounts; for example, details of services which had been received, but not yet invoiced;
- Issues that emerged in late Autumn that could not have been anticipated and which absorbed considerable staff resources to resolve. In particular these included the valuation of the Department's building at 22 Whitehall and the reclassification of assets constructed for the Criminal Justice group but funded through the Department; and
- The time taken, at a late stage, to resolve the accounting issue of the valuation of e-Envoy assets.

10. The lack of adequate staff resources and processes within the department to maintain proper accounting procedures has led to my staff being unable to obtain the necessary audit evidence to enable me to form an opinion on the financial statements.

Excess Expenditure

11. Schedule 1 to the accounts shows net expenditure on Request for Resources 1 of £359,115,570.34, which is £2,366,570.34 (0.7 per cent) in excess of the amount authorised. Operating income authorised to be appropriated in aid of expenditure on this Request for Resources was limited to £70,789,000. This amount is shown as being wholly earned and applied. Schedule 1 also shows that the department also earned during the year from these income sources an additional £1,022,000.00. This is shown as excess Appropriations in

Aid in the analysis of income payable to the Consolidated fund. It is proposed to ask Parliament to increase the limit on Appropriations in Aid by this amount to allow it to be applied towards meeting the excess shown on this Request for Resources, and to authorise the balance of £1,344,570.34 as additional use of resources by an Excess Vote.

12. The Department does not systematically prepare monthly, resource-based, management accounts. The year end accounts production process, which commenced in September, was therefore the catalyst to consider matters, such as the method and basis of valuation of assets associated with the work of the e-Envoy. Work on these assets continued during the autumn, in consultation with my staff, and led to the decision by the Department in November 2003 to consider the impairment of these assets, which resulted in the excess vote noted above.

Statement on Internal Control

13. My examination of the financial statements also includes a review of the Department's compliance with Treasury's guidance entitled "*Corporate Governance: Statement on Internal Control*" and I am required to comment if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

14. As a result of my work on the financial statements, and my staff's attendance at Audit Committee meetings, I have observed that the Department's progress in developing risk management procedures has been significantly slow. As a matter of urgency, the department intends to make significant improvements in its corporate governance and risk management arrangements. The Accounting Officer informed the Audit Committee in November 2003 that his specific plans included :

- A stock check of progress in introducing risk management procedures against Treasury Guidance;
- A fresh look by the Strategy Board of corporate level risks facing the department in the delivery of the Department's objectives and identification of the top ten risks;
- A review of the level and consistency of detail recorded on the Monitoring and Reporting System (MARS) in describing and evaluating each risk at the operational level and plans by Management Units to mitigate those risks; and
- The production of a refreshed and more robust risk matrix.

15. My staff inform me that action is in hand to implement these plans. However, in order to achieve the Accounting Officer's aim to have fully embedded risk management processes before the start of 2004-05 financial year, as he reflects in his Statement on Internal Control, I note that significant staff resources, time and commitment will be required.

Actions taken to prevent recurrence

16. The Department recognises the importance of improving its financial reporting infrastructure and has informed my staff of the following initiatives, which are designed to improve the quality and timeliness of financial management and reporting:

- a new Finance Director, who is a qualified accountant, has been appointed with the specific mandate to improve financial management across the Cabinet Office;
- a project has been launched to make significant changes to the accounting system to facilitate production of automated monthly management accounts (leading to earlier closing of final accounts), and to make it more responsive and user-friendly;
- proposals for improving recruitment and retention of finance staff, including the introduction of an improved accountancy training scheme;
- proposals for changes to the wider finance function, intended to improve the quality and timeliness of information flowing from the Management Units to FMD, and to raise the overall profile of financial management in Department;

- plans to ensure that the accounts production team is fully staffed and skilled in advance of 31 March 2004, so that all possible preparatory work can be completed in advance of the accounts production process; and
- plans to increase awareness of audit requirements amongst the wider finance community within the Department.

Conclusion

17. The Department underestimated the impact of the staff reductions made in the Financial Management Division on the work required to prepare annual accounts on a timely basis. As a result it failed to meet both internal and statutory deadlines for the delivery of its resource accounts. The financial capability and management capacity within the central and wider finance function needs to be developed to manage the process more efficiently and effectively in future. I note the initiatives proposed to ensure that the year end process of preparing the resource accounts is an extension of a process of automated monthly management accounts.

18. My staff will continue to monitor the department's progress in its development and implementation of risk management procedures, as mentioned at paragraphs 14 and 15 above. They will also closely monitor the initiatives proposed to improve the quality and timeliness of financial management and reporting, as mentioned at paragraph 16 above.

John Bourn
Comptroller & Auditor General
27 January 2004

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

SCHEDULE 1

Summary of Resource Outturn 2002-03

for the year ended 31 March 2003

	2002-03							2001-02
	Estimate			Outturn				
	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total [1]	Net Total Outturn compared with Estimate saving/ (excess)	Prior year Restated
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1 (Notes 7 and 11)								
Total resources	**427,538**	**70,789**	**356,749**	**429,904**	**70,789**	**359,115**	**(2,366)**	**220,422**
Non-operating cost A in A (Note 7)			**6,121**			**442**	**5,679**	**515**
Net cash requirement			**399,170**			**373,864**	**25,306**	**262,176**

Reconciliation of resources to cash requirements

	Note	£000	£000	£000
Net total resources		**356,749**	**359,115**	**(2,366)**
Capital:				
Acquisition of fixed assets:	12, 13, 14			
Cash purchase		61,623	52,680	8,943
Cash purchase – Criminal Justice IT infra-structure developed on behalf of the Home Office	16	13,337	15,360	(2,023)
Transfer of Function		613	613	-
Off-balance sheet PFI Residual interest		954	805	149
Off-balance sheet PFI contribution of existing assets	16	(651)	(563)	(88)
Investments	15	-	-	-
Non-operating A in A:				
Proceeds of fixed asset disposals & loan repayments	7	(6,121)	(369)	(5,752)
Loss on fixed asset disposals		-	(73)	73
Accruals adjustments:				
Non-cash items	5b	(36,991)	(48,874)	11,883
Changes in working capital other than cash	16	10,000	(6,098)	16,098
Changes in creditors falling due after more than one year	20	-	40	(40)
Use of provision	21	70	618	(548)
Transfer of functions – difference between resource and cash transfers		**(413)**	**(413)**	**-**
Net cash requirement (Schedule 4)		**399,170**	**372,841**	**26,329**

Continued overleaf

The notes on pages 27 to 58 form part of these accounts.

Explanation of the variation between Estimate and outturn (net total resources):
(i) £4.5 million impairment arising on e-Government assets is recorded within Annually Managed Expenditure (AME). Treasury approval for virement has been obtained in order to apply under-spends falling within the Departmental Expenditure Limit (DEL) to reduce the over-spend within AME leaving a residual excess net resource requirement of £1.4 million. *See Notes 1.3 & 6 & 11 to the Accounts*.

(ii)£1 million excess Appropriations in Aid arose from the fact that the bodies under net administration control, CMPS and GCDA, increased their expenditure and received offsetting income as permitted under the net control regime but without correspondingly increasing the Appropriations in Aid limit in order to retain the income in Parliamentary terms; this has resulted in excess Appropriations in Aid and, accordingly, in excess net resource requirement of £1 million. *See below the Analysis of income payable to the Consolidated Fund and Note 11*. Parliamentary approval is being sought to apply the excess Appropriations in Aid against the Excess Vote thus reducing to £1.4 million the additional resources required from Parliament.

Explanation of the variation between Estimate net cash requirement and outturn (net cash requirement):
(i) Net Resource Outturn after adjustment for non - cash items recorded an under-spend in cash items of £11.3 million.
(ii) Capital Outturn recorded a saving of £1.3 million.
(iii) Movement in Working Capital produced an adjustment of £16.1million; estimated reduction in accruals of £10 million unrealised.

Prior-period adjustments – *not applicable*

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

		Forecast 2002-03		Outturn 2002-03	
	Note	**Income**	**Receipts**	**Income**	**Receipts**
		£000	*£000*	£000	*£000*
Operating income and receipts – excess A in A	7	-	-	1,022	-
Non-operating income and receipts – excess A in A	7	-	-	-	-
Subtotal		-	-	1,022	-
Other operating income and receipts not classified as A in A	7	-	-	22	*22*
Other non-operating income and receipts not classified as A in A	7	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	7	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	7	-	-	-	-
Total[2]		**-**	**-**	**1,044**	*22*

[1] **Actual outturn – resources:**
Request for Resources 1: Actual amount net resource outturn **£359,115,570.34**. Actual amount of excess in resources over Estimate **£2,366,570.34**.

Actual outturn – cash:
Net cash requirement: Outturn net requirement **£372,841,462.83** which is **£26,328,537.17** less than estimate.
[2] The actual receipts to the Consolidated Fund were **£22,491.34**. In addition, a further **£587.66** is surrenderable to the Consolidated Fund from the prior year.

The notes on pages 27 to 58 form part of these accounts.

SCHEDULE 2

Operating Cost Statement

for the year ended 31 March 2003

	Note	2002-03 £000	2002-03 £000	2001-02 Restated £000	2001-02 Restated £000
Administration costs:					
Staff costs	4	107,198		96,383	
Other administration costs	5	127,528		122,830	
Gross administration costs			**234,726**		**219,213**
Operating income	7		(66,642)		(59,775)
Net administration costs			**168,084**		**159,438**
Programme costs:					
Expenditure	6	73,882		58,909	
Less: income	7	-		-	
Net programme costs	6		**73,882**		**58,909**
Net operating cost	9 & 10		**241,966**		**218,347**
Net resource outturn	9		**359,115**		**220,422**

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2003

	Note	2002-03 £000	2001-02 Restated £000
Net loss on revaluation of tangible fixed assets	23	(5,927)	7,624
Net gain on revaluation of intangible fixed assets		-	-
Net loss on revaluation of investments		-	-
Receipt of donated assets	13	28	76
Total recognised gains and (losses) for the financial year		**(5,899)**	**7,700**

The notes on pages 27 to 58 form part of these accounts.

SCHEDULE 3

Balance Sheet

as at 31 March 2003

	Note	31 March 2003 £000	31 March 2003 £000	31 March 2002 Restated £000	31 March 2002 Restated £000
Fixed assets:					
Tangible assets	13	244,407		253,254	
Intangible assets	14	2,397		2,887	
Investments	15	510		703	
			247,314		**256,844**
Debtors falling due after more than one year			**8,354**		**-**
Current assets:					
Stocks	17	20		97	
Debtors	18	44,092		28,628	
Cash at bank and in hand	19	3,937		16,513	
		48,049		45,238	
Creditors (amounts falling due within one year)	20	(45,129)		(57,995)	
Net current assets/(liabilities)			**2,920**		**(12,757)**
Total assets less current liabilities			**258,588**		**244,087**
Creditors (amounts falling due after more than one year)	20	(64)		(103)	
Provisions for liabilities and charges	21	(5,257)		(4,748)	
			(5,321)		**(4,851)**
			253,267		**239,236**
Taxpayers' equity:					
General fund	22		224,863		211,848
Revaluation reserve	23		26,824		25,836
Donated asset reserve	23		1,580		1,552
			253,267		**239,236**

Colin Balmer
Accounting Officer

23rd January 2004

The notes on pages 27 to 58 form part of these accounts.

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2003

	2002-03	2001-02 Restated
	£000	£000
Net cash outflow from operating activities[a]	**(204,314)**	(190,065)
Capital expenditure and financial investment[b]	**(59,253)**	(65,697)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**-**	-
Payments of amounts due to the Consolidated Fund	**(3,304)**	(2,619)
Financing[c]	**254,295**	257,868
(Decrease)/Increase in cash in the period	**(12,576)**	(513)

Notes:

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

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

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

Reconciliation of operating cost to operating cash flows

	2002-03	2001-02 Restated
	£000	£000
Net operating cost	241,966	218,347
Adjustments for non-cash transactions - *see Note 5a*	(48,574)	(34,318)
Adjustments for movements in working capital other than cash - *see Note 16*	10,304	5,673
Use of provisions	618	363
Net cash outflow from operating activities	**204,314**	190,065

Analysis of capital expenditure and financial investment

	2002-03	2001-02 Restated
	£000	£000
Intangible fixed-asset additions	756	2,053
Tangible fixed-asset additions - *see Footnote 2*	58,866	64,159
Proceeds of disposal of fixed assets	(176)	(491)
Loans to other bodies	-	-
Repayment of loans to other bodies	(193)	(24)
Net cash outflow from investing activities	**59,253**	65,697

The notes on pages 27 to 58 form part of these accounts.

Analysis of financing and reconciliation to the net cash requirement

		2002-03	2001-02 Restated
		£000	£000
From the Consolidated Fund (Supply) – current year [1]	(+)	363,419	259,691
From the Consolidated Fund (Supply) – prior year [2]	(+)	-	-
From the Consolidated Fund (non-Supply)	(+)	-	-
From the National Insurance Fund	(+)	-	-
Payments to the National Insurance Fund	(-)	-	-
Advances from the Contingencies Fund	(+)	-	-
Repayments to the Contingencies Fund	(-)	-	-
Loans received from the National Loans Fund	(+)	-	-
Repayments of loans from the National Loans Fund	(-)	-	-
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(-)	(40)	(40)
Transfer to (-) / from (+) Departments in respect of transferred functions (see Footnote 1):			
Current year :			
To the Department for Trade and Industry		(8,464)	(12,207)
To the Office of the Deputy Prime Minister		(104,563)	(108,678)
Prior year :			
To the Department for Culture, Media and Sport		(62)	(148)
To the Lord Chancellor's Department		(174)	(232)
To the Home Office		(1,973)	(759)
From the Department for Education and Skills		23	9,211
From the Home Office		4,107	36,560
From the Department for Transport, Local Government and the Regions		2,022	74,150
From the Privy Council Office		-	320
Net financing		**254,295**	257,868
Decrease / (Increase) in cash		**12,576**	513
Net cash flows other than financing		**266,871**	258,381
Adjustment for payments and receipts not related to Supply:			
Amounts due to the Consolidated Fund – received in a prior year and paid over	(-)	(52)	(2,619)
Amounts due to the Consolidated Fund – received in current year and paid over	(-)	(3,252)	-
Amounts due to the Consolidation Fund – received and not paid over	(+)	23	52
NLF loans – loans made to other bodies	(-)	-	-
NLF loans - principal repayments received from other bodies	(+)	-	-
NLF loans – interest received from other bodies	(+)	-	-
NLF loans – interest paid to the NLF	(-)	-	-
Consolidated Fund standing services – payments	(-)	-	-
National Insurance fund financed activities – payments	(-)	-	-
National Insurance fund financed activities – receipts	(+)	-	-
Supply-financed repayment of financing			
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(+)	40	40

The notes on pages 27 to 58 form part of these accounts.

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

Transfer to (+)/from (-) Departments in respect of transferred functions (*see Footnote 1*) :			
To the Department for Trade and Industry		8,464	12,207
To the Office of the Deputy Prime Minister		104,563	108,678
To the Department for Culture, Media and Sport		-	148
To the Lord Chancellor's Department		-	232
To the Home Office		-	759
From the Department for Education and Skills		-	(9,211)
From the Home Office		-	(36,560)
From the Department for Transport, Local Government and the Regions		-	(74,150)
From the Privy Council Office		-	(320)
Balances to transfer to (+)/from (-) Departments in respect of transferred functions:			
To the Department for Trade and Industry		2,410	-
To the Office of the Deputy Prime Minister		495	-
To the Department for Culture, Media and Sport		-	62
To the Lord Chancellor's Department		-	174
To the Home Office		-	1,973
From the Department for Education and Skills		-	(23)
From the Home Office		-	(4,107)
Adjustment for payments financed from contingencies Fund advances accounted for on Schedule 1 in a different year (in accordance with *Government Accounting*):		-	-
Current-year payments accounted for on Schedule 1 in the following year	(-)	-	-
Prior-year payments accounted for on Schedule 1 in the current year	(+)	-	-
Transitional adjustment for outstanding balances relating to the department's Appropriation Accounts for 2000-01 (*see Note 16*)		(6,721)	6,460
Net cash requirement (Schedule 1)		**372,841**	**262,176**

[1] Amount of grant actually issued to support the net cash requirement = **£363,418,949.00**
[2] Amount of grant actually issued to support the prior year net cash requirement = **£NIL**

Footnote 1 - Functions transferred

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

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

To the Department for Culture, Media and Sport – Commonwealth Games Unit

To the Lord Chancellor's Department – Constitution Secretariat

To the Home Office – UK Anti-Drugs Co-ordination Unit

From the Department for Education and Skills – Equal Opportunities Commission

From the Home Office – Emergency Planning Division

From the Department for Transport, Local Government and the Regions and from the Privy Council Office – The Government Offices for the Regions and the Regional Co-ordination Unit

Footnote 2 - Reconciliation of Tangible Fixed Assets Additions

Cash Purchases	£58,866
Reversal of prior year accruals	£(9,712)
Current year accruals	£3,575
Total additions reported in Note 13	£52,729

The notes on pages 27 to 58 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives

for the year ended 31 March 2003

	2002-03			2001-02 Restated		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Aim:						
Objective 1	26,420	(1,331)	25,089	23,814	(1,139)	22,675
Objective 2	75,061	(23,897)	51,164	53,029	(18,093)	34,936
Objective 3	66,625	(3,217)	63,408	56,207	(1,152)	55,055
Objective 4	77,231	(35,943)	41,288	88,499	(37,949)	50,550
Objective 5	63,271	(2,254)	61,017	56,573	(1,442)	55,131
Net operating costs	**308,608**	**(66,642)**	**241,966**	**278,122**	**(59,775)**	**218,347**

The department's objectives were as follows:

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

Objective 2 – To support the Government in transacting its business

Objective 3 – To help deliver key public service priorities

Objective 4 – To lead the reform programme for public services

Objective 5 – To co-ordinate security, intelligence and civil contingencies matters to protect the UK against disruptive challenges

See Note 24.

The notes on pages 27 to 58 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2002–03 *Resource Accounting Manual* (*RAM*) issued by HM Treasury. The accounting policies contained in the *RAM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the department and those entities which fall within the departmental boundary as defined in the *Resource Accounting Manual* (section 1.5) issued by HM Treasury. Transactions between entities included in the consolidation are eliminated. These accounts consolidate the core department and its supply-financed Agency, the Government Car and Despatch Agency (GCDA), which produces and publishes its own annual report and accounts.

A list of all those entities within the departmental boundary is given at Note 34.

1.3 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. The minimum level for capitalisation of a tangible fixed asset during the year was £5,000; this has been increased from £1,000 in 2001-02 and prior years.

Title to the freehold land and buildings is held by the Cabinet Office. The replacement cost for freehold land and buildings is existing use value with the addition of notional directly attributable acquisition costs. Freehold land and buildings are restated to current value using professional valuations every five years, in accordance with FRS 15, and by use of published indices appropriate to the type of land or building in intervening years.

All other tangible fixed assets are restated to current value each year by use of published indices appropriate to the category of asset.

Residual interests in off-balance sheet PFI properties are included in tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual to the balance sheet date plus an adjustment based on the net present value of the change in the fair value of the residual as estimated at the start of the contract and its estimated fair value at the balance sheet date.

Art and antiques, including some heritage assets, have been inherited by the Department since its earliest existence and are held mainly in Number 10, Downing Street and 70, Whitehall. They are subject to professional valuation every five years with the revaluation being taken to the revaluation reserve. They are not depreciated.

e-Government assets

e-Government projects represent the development of the Government Gateway, Citizen Portal and Knowledge Network. Expenditure covers the software, hardware and consultancy costs of developing the infrastructure to run these services.

During the year, capital expenditure amounted to Government Gateway £17.3million, Citizen Portal £12.2million and Knowledge Network £2.7million (respectively for 2001-2002: £24.4million, £10.8million and £3.5million).

These assets are owned by the whole of government, but their value is disclosed on the Cabinet Office balance sheet since the Office of the e-Envoy manages and is responsible for their development.

The projects have been funded by HM Treasury Capital Modernisation Fund and each project has been given an estimated useful economic life of three years. The value of these projects has not been restated to current cost.

In December 2003, an impairment review was performed on the closing asset balances as at March 31, 2003. Knowledge Network project developments and capitalised hardware are still in use and impairment is not required. Impairment has been applied to Citizen Portal and Government Gateway projects on the grounds that some specific and clearly identifiable developments have either not been brought into use or have subsequently been taken out of use and replaced by new developments. This has given rise to a small impairment charge of £4.5 million. This level of impairment supports the continued application of a three year useful economic life.

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

More background information on these projects and the overall vision for e-Government can be found on the web site of the Office of the e-Envoy at *www. e-envoy.gov.uk*.

1.4 Depreciation

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

Asset lives are normally in the following ranges:

Freehold buildings	up to 60 years
Leasehold improvements	over the remaining term of the lease
Plant and machinery	5 to 10 years
Furniture, fixtures and fittings	5 to 15 years
IT and Office Equipment	3 to 7 years
Vehicles	3 to 5 years

1.5 Donated assets

Gifts of ornaments and jewellery received by past and present Prime Ministers and their spouses are treated as donated tangible fixed assets and capitalised at their current value on receipt with this value being taken to the donated asset reserve. They are subject to professional valuation every five years with the revaluation being taken to the donated asset reserve. They are not depreciated.

1.6 Intangible fixed assets

Intangible fixed assets consist of purchased software licences and are stated at cost less amortisation. These assets are amortised evenly over periods ranging from 3 to 5 years, being useful economic life, where expenditure of £5,000 or more is incurred.

1.7 Investments

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

1.8 Stocks and work in progress

Stocks of finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used.

1.9 Research and development

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

1.10 Operating income

Operating income is income which relates directly to the operating activities of the Cabinet Office. It principally comprises the Principal Civil Service Pension Scheme management fee, fees for training and consultancy services by CMPS, income charged by the Government News Network to clients for advice on publicity matters, focusing on regional media and regional issues, and charges for the Government Car Service and Inter Despatch Service by GCDA. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the *RAM* is treated as operating income. Operating income is stated net of VAT.

1.11 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department.

1.12 Capital charge

A charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the government's standard rate, which for 2002-03 was 6 per cent in real terms, on the average carrying amount of all assets less liabilities, except for donated assets, cash balances with the Office of the Paymaster General and amounts due to and from the Consolidated Fund, where the charge is nil.

1.13 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction.

1.14 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme, but the Cabinet Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the *Cabinet Office: Civil Superannuation* (*www.civilservice-pensions.gov.uk*). The department recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

1.15 Leases

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

1.16 Private Finance Initiative (PFI) transactions

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

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

1.17 Grants payable

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

1.18 Provisions

The department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate, which for 2002-03 was 6 per cent in real terms.

1.19 Contingent liabilities

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

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;

- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the *Resource Accounting Manual* to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted.

Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.20 Value Added Tax

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

2. Transfer of function from the Cabinet Office to ODPM and DTI

Functions transferred out to the Office of the Deputy Prime Minister and to the Department for Trade and Industry are listed in the annual report.

3. Transfer of function from COI

As part of the machinery of government changes implemented on 1st April 2002, responsibility for Government News Network (GNN) was transferred from the Central Office of Information (COI). The staff and certain assets related to delivering the function were also transferred to the department on that date. The transfer has been accounted for as a business combination using merger accounting principles in accordance with the *RAM*. Accordingly, the results and cash flows related to the transferred services have been brought into account from the start of the financial year. Prior-year comparative figures have been restated.

The share of the net operating cost for the year attributable to the transferred function was £27,558.

ANALYSIS OF THE OPERATING COST STATEMENT BETWEEN THE FUNCTION TRANSFERRED FROM COI AND OTHER FUNCTIONS

for the year ended 31 March 2003

	GNN transferred from COI	Other	Total
	£000	£000	£000
Administration costs:			
Staff costs	4,665	102,533	107,198
Other administration costs	4,008	123,520	127,528
Gross administration costs	**8,673**	**226,053**	**234,726**
Operating income	(8,646)	(57,996)	(66,642)
Net administration costs	**27**	**168,057**	**168,084**
Programme costs:			
Expenditure	-	73,882	73,882
Less: income	-	-	-
Net programme costs	**-**	**73,882**	**73,882**
Net operating cost	**27**	**241,939**	**241,966**

The aggregate value of net assets transferred was £1,581,797 and the General Fund was credited with this amount. Assets were taken over at their book value in COI's accounts. No significant accounting adjustments were required to achieve consistency of accounting policies. No consideration was given for the assets transferred.

4. Staff numbers and costs

A. Staff costs consist of:

	2002–03				2001–02
	Total	Officials	Ministers	Special Advisers	Restated Total
	£000	£000	£000	£000	£000
Wages and salaries	**79,670**	77,397	202	2,071	69,659
Social security costs	**6,201**	5,953	28	220	5,486
Other pension costs	**10,547**	10,232	-	315	9,453
Agency/Temporary Staff	**5,746**	5,746	-	-	8,897
Sub Total	**102,164**	**99,328**	**230**	**2,606**	**93,495**
Inward Secondments	**5,505**	**5,505**	**-**	**-**	3,748
Total	**107,669**	**104,833**	**230**	**2,606**	**97,243**
Less recoveries in respect of outward secondments	**(471)**	**(471)**	**-**	**-**	(860)
Total Net Costs *	**107,198**	**104,362**	**230**	**2,606**	**96,383**

* None of the total above has been charged to capital

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

For 2002-2003, employers' contributions of £10,546,518 were payable to the Principal Civil Service Pension Scheme (PCSPS) (2001 – 2002: £9,453,123) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for 2003-04, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. This is likely to lead to changes for 2004-05. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £353.36 were paid to one or more of a panel of four appointed stakeholder pension providers. Employers' contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £353.36, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum death benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £68.79.

During the year, one staff member retired early on the grounds of ill health and this resulted in an additional accrued pension liability in the amount of £2,039 payable by the pension scheme.

B. The average number of whole-time equivalent persons employed (including senior management, ministers, special advisers, staff on secondment or loan into the department and agency/temporary staff, but excluding staff on secondment to other organisations) during the year was as follows:

	2002–03	2001–02 Restated
	Number	Number
Objective 1	253	250
Objective 2	961	795
Objective 3	272	350
Objective 4	650	666
Objective 5	206	156
TOTAL	**2,342**	**2,217**
Staff engaged on capital projects	–	–

C. The salary and pension entitlements of the ministers and senior managers of the department were as follows:

	Age	Ministerial salary received	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2003	Benefits in kind
2002–03	Years	£000	£000	£000	(Rounded to the nearest £100)
Ministers					
The Rt Hon John PRESCOTT MP *until 29th May 2002*	64	10-15	0–2.5	5–10	-
The Rt Hon Lord WILLIAMS of MOSTYN QC	62	90-95	2.5-5	10-15	-
The Rt Hon The Lord MacDONALD of TRADESTON CBE	62	70-75	Opted Out	Opted Out	-
Douglas ALEXANDER MP *from 30th May 2002*	35	30-35	0-2.5	0-5	-
Rt Hon Charles CLARKE MP *until 24th October 2002*	52	Unpaid	Non-pensionable	Non-pensionable	-
Rt Hon Dr John REID MP *from 25th October 2002*	55	Unpaid	Non-pensionable	Non-pensionable	-
Ms Barbara ROCHE *until 29th May 2002*	48	5-10	0–2.5	0–5	-
Mr Christopher LESLIE *until 29th May 2002*	30	0-5	0–2.5	0-5	-

2001-02	Age	Ministerial salary received	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2003	Benefits in kind
	Years	£000	£000	£000	(Rounded to the nearest £100)
Ministers					
The Rt Hon John PRESCOTT MP *from June 2001*	63	55-60	0–2.5	5–10	£8,000 *
The Rt Hon The Lord WILLIAMS of MOSTYN QC *from June 2001*	61	90-95	0-2.5	5-10	-
The Rt Hon The Lord MacDONALD of TRADESTON CBE	61	75-80	Opted Out	Opted Out	-
Ms Barbara ROCHE *from June 2001*	47	25-30	0–2.5	0–5	-
Mr Christopher LESLIE *from June 2001*	29	10-15	Non-pensionable	Non-pensionable	-

* Taxable value of living accommodation provided at public expense.

Notes:

NB: As the House of Commons (or House of Lords) and not the Cabinet Office meets the Exchequer contribution to the cost of pension provision for Ministers, the pension details are included on a "for information" basis.

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

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office on or after age of 65. Members pay contributions of 6% of their Ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the Ministerial salary.

In the event of retirement because of serious ill health, the ministerial pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Minister's pension. On death in service, the Ministerial arrangements provide for a lump sum gratuity of four times the Ministerial salary. Pensions in payment increase in line with changes in the Retail Prices Index. On retirement, it is possible to commute part of the pension for a lump sum.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£55,118, 2001–02: £51,822) and various allowances to which they are entitled are borne centrally. [However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department and is therefore shown in full in the figures above.]

2002-03	Age	Salary[a]	Real increase in pension at age 60[b]	Total accrued pension at age 60 at 31 March 2003	Benefits in kind[c]
	Years	£000	£000	£000	(Rounded to the nearest £100)
Officials					
Professor Ron AMANN *until 23rd June 2002*	59	60-65	0-2.5	0-5	-
Ms Leonie AUSTIN	42	80-85	0–2.5	15-20	-
Professor Michael BARBER *from 24th July 2002*	48	120-125	0–2.5	0-5	-
Mr Paul BRITTON *until 23rd June 2002*	53	110-115	5-7.5	40-45	-
Mrs Helen GHOSH	47	75-80	0–2.5	25–30	-
Mr Mike GRANATT **	52	115-120	2.5-5	30-35	-
Mr Jeremy HEYWOOD	41	125-130	2.5-5	25-30	-
Mrs Mavis McDONALD *until 23rd June 2002*	58	100-105	5-7.5	55-60	-
Sir David OMAND *from 24th June 2002*	55	170-175	15-17.5	65-70	-
Ms Alice PERKINS	52	110-115	2.5-5	40-45	-
Mr Andrew PINDER	55	180-185	0-2.5	0-5	-
Sir Andrew TURNBULL *from 2nd September 2002*	58	155-160	7.5-10	65-70	-
Rob SMITH *until 29th May 2002*	51	30-35	2.5-5	35-40	-
Mr Peter WARDLE	40	90-95	2.5-5	15-20	-
Sir Richard WILSON *until 1st September 2002*	60	105-110	2.5-5	80-85	-

** opted to join classic plus

2001-02	Age	Salary[a]	Real increase in pension at age 60[b]	Total accrued pension at age 60 at 31 March 2003	Benefits in kind[c]
	Years	£000	£000	£000	(Rounded to the nearest £100)
Officials					
Professor Ron AMANN ***	58	110-115	0-2.5	0-5	-
Ms Leonie AUSTIN	41	70-75	2.5-5	10-15	-
Mr Paul BRITTON	52	70-75	2.5-5	35-40	-
Mrs Helen GHOSH	46	30-35	0-2.5	20-25	-
Mr Mike GRANATT	51	90-95	2.5-5	25-30	-
Mr Jeremy HEYWOOD	40	110-115	2.5-5	20-25	-
Ms Mavis McDONALD	57	115-120	2.5-5	50-55	-
Ms Alice PERKINS	51	100-105	2.5-5	35-40	-
Mr Andrew PINDER	54	165-170	2.5-5	0-5	-
Mr Rob SMITH	50	95-100	0-2.5	30-35	-
Mr Peter WARDLE	39	75-80	0-2.5	15-20	-
Sir Richard WILSON	59	175-180	5-7.5	75-80	-

*** A lump sum payment of £92,750 was made to Ron Amann in compensation for early retirement from his fixed term contract.

Notes:

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

b Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (**classic**, **premium** and **classic plus**). New entrants after 1 October 2002 may choose between membership of **premium** or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (**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 Scheme**
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 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 them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

iii **Classic Plus Scheme**
This is essentially 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.

iv **Partnership Pension Account**
This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

c No benefits in kind were payable to the most senior managers during the year.

The information given above relates to the Permanent Secretary and the most senior managers of the Cabinet Office. Equivalent information relating to the Government Car and Despatch Agency is given its own annual report and accounts for 2002-2003.

5. Other administration costs

	2002-03		2001-02 Restated	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machines	1,572		888	
Other operating leases	7,696	9,268	6,988	7,876
Interest charges:				
Finance leases	11		11	
On-balance sheet PFI contracts	-	11	-	11
PFI service charges:				
Off-balance sheet contracts	4,020		-	
Service element of on-balance sheet contracts	-	4,020	-	-
Research and development expenditure		27		1
Non-cash items (Notes a & b):				
Depreciation and amortisation of fixed assets:				
Civil Estate	2,066		1,092	
Other tangible fixed assets	4,029		3,488	
Intangible fixed assets	1,246		1,376	
Impairment of Fixed Assets	403		669	
(Profit)/Loss on disposal of fixed assets	73		(193)	
Cost of capital charge:				
Civil Estate	10,405		9,046	
Other items	561		270	
Auditor's remuneration and expenses	245		286	
Provisions:				
Provided in year	1,225		2,823	
Unwinding of discount on provisions	263	20,516	-	18,857
Other expenditure		93,686		96,085
		127,528		**122,830**

Note a – the total of non-cash transactions included the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	2002–03	2001–02 Restated
	£000	£000
Other administration costs – non-cash items (as above)	20,516	18,857
Other non-cash amounts charged to operating expenditure:		
Cost of Capital on e-Government projects	3,626	2,652
Depreciation charges on e-Government projects	20,346	12,887
Impairment of e-Government fixed assets	4,511	-
Consolidation elimination entries	(373)	-
Less non-cash income:		
Notional interest on early departure costs	(52)	(78)
Deferred donation income released from the Donated Asset Reserve	-	-
Profit on sale of fixed assets	-	-
Total non-cash transactions	**48,574**	**34,318**

Note b – the total of non-cash items included the Reconciliation of Resources to Net Cash Requirement comprises:

	2002–03
	£000
Total non-cash transactions as above	48,574
Consolidation elimination entries	373
Adjustment for profits and losses on disposal of fixed assets:	
Losses on disposal of tangible fixed assets	(73)
Profits on disposal of tangible fixed assets	-
Non-cash items per reconciliation of resources to net cash requirement	**48,874**

6. Net programme costs

	2002-03		2001-02 Restated	
	£000	£000	£000	£000
Current Grants				
Civil Defence Grants to Local Authorities	18,635		18,753	
Other	3,867		4,276	
Other Current Expenditure				
National Severe Weather Warning System	10,041		10,021	
UK Communications Infrastructure	6,472		5,705	
e-Government Infrastructure Projects	3,977		2,283	
BBC Monitoring	2,407		2,332	
		45,399		**43,370**
e-Government Projects				
Cost of capital charge		3,626		2,652
Depreciation charge		20,346		12,887
Impairment of fixed assets		4,511		-
		73,882		58,909
Less: programme income (*Note 7*)		-		-
		73,882		**58,909**

7. Income and appropriations in aid

Operating income

Operating income not appropriated in aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (*see Note 9*). In 2002–03, all operating income not classified as A in A was within public expenditure.

	Resource Outturn	2002–03 Reconciliation to Operating Cost Statement				Operating Cost Statement
	A in A	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Transactions between Request for Resources	-	-	-	-	-	-
Fees and charges to external customers	2,556	-	-	22	-	2,578
Fees and charges to other departments	62,990	-	-	1,022	-	64,012
Consolidation elimination adjustments relating to fees and charges to other departments	5,191	-	(5,191)	-	-	-
Notional interest on early departure costs	52	-	-	-	-	52
Transfer of function	-	-	-	-	-	-
Estimate cover A in A	-	-	-	-	-	-
	70,789	**-**	**(5,191)**	**1,044**	**-**	**66,642**
Programme income:	-	-	-	-	-	-
Total	**70,789**	**-**	**(5,191)**	**1,044**	**-**	**66,642**

	Resource Outturn	2001–02 Restated Reconciliation to Operating Cost Statement				Operating Cost Statement
	A in A	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Transactions between Request for Resources	-	-	-	-	-	-
Fees and charges to external customers	2,541	-	-	52	-	2,593
Fees and charges to other departments	57,104	-	-	-	-	57,104
Notional interest on early departure costs	78	-	-	-	-	78
Transfer of function	115,088	(115,088)	-	-	-	-
Estimate cover A in A	-	-	-	-	-	-
	174,811	(115,088)	-	52	-	59,775
Programme income:	-	-	-	-	-	-
Total	**174,811**	**(115,088)**	**-**	**52**	**-**	**59,775**

Non-operating appropriations in aid

	2002–03	2001–02 Restated
	£000	£000
Principal repayments of voted loans	193	24
Disposals of fixed assets	176	491
	369	**515**

European Union income (included in operating income)

Recovery of administration costs relating to Polish and Slovak Twinning Projects, treated as negative public expenditure	**85**	**82**

Rental Income

	2002–03	2001–02 Restated
	£000	£000
From other government departments	2,326	1,724
From external tenants	291	534
	2,617	**2,258**

Rental income from operating leases is included at Note 5.

8. Administration cost limits

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

	2002-03		2001-02 Restated	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Cabinet Office (Gross Limit)	164,567	169,127	151,916	156,022
Centre for Management and Policy Studies (Net Limit)	2,504	2,481	5,582	5,037
Government Car and Despatch Agency (Net Limit)	(1,584)	(1,406)	(2,096)	(1,298)
Total within administration cost control	**165,487**	**170,202**	**155,402**	**159,761**
Administration Expenditure excluded from administration cost limit	**8,045**			
Administration Income Allowable within the administration cost limit	**66,758**			
Total administration outturn	**240,290**			

9. Reconciliation of net operating cost to control total and net resource outturn

	2002–03	2001–02 Restated
	£000	£000
Net operating cost (*Note a*)	241,966	218,347
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund extra receipts (CFERs):		
Operating income not classified as A in A	1,044	52
Consolidated Fund standing services	-	-
Adjust for the effects of prior-period adjustments in the current and prior years-	-	-
Adjust for transfer of Estimate cover in respect of transfer of functions	115,732	2,023
Adjust for Consolidation Elimination entries excluded from Schedule 1	373	-
Net resource outturn (Note a)	**359,115**	**220,422**

Note: a

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

10. Analysis of net operating cost by spending body

	2002-03		2001-02 Restated
	Budget	**Outturn**	**Outturn**
	£000	£000	£000
Spending body:			
Cabinet Office	241,017	242,189	218,904
Government Car and Despatch Agency	-	(223)	(557)
	241,017	**241,966**	**218,347**

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

	Admin.	Other current	Grants	Gross resource expenditure	A in A	Net total	Estimate	Net total outturn compared with Estimate	Prior-year outturn
	2002–03								2001–02 Restated
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1									
Cabinet Office	197,457	50,893	3,867	252,217	(31,827)	220,390	218,054	(2,336)	192,315
- Grants to Local Authorities	-	-	18,634	18,634	-	18,634	19,038	404	18,753
- Grants to Public Corporations	-	-	488	488	-	488	794	306	525
Centre for Management and Policy Studies	27,852	-	-	27,852	(24,180)	3,672	3,131	(541)	7,363
Government Car and Despatch Agency	14,981	-	-	14,981	(14,782)	199	-	(199)	(557)
Total	**240,290**	**50,893**	**22,989**	**314,172**	**(70,789)**	**243,383**	**241,017**	**(2,366)**	**218,399**
Transfer of Functions 2002-2003 :									
To the Department for Trade and Industry -									
Women and Equality & Equality Co-ordination Units	-	3,869	-	3,869	-	3,869	3,869	-	3,362
Equal Opportunities & Women's National Commissions	-	7,005	-	7,005	-	7,005	7,005	-	8,845
To the Office of the Deputy Prime Minister -									
Government Offices for the Regions	-	99,043	-	99,043	-	99,043	99,043	-	104,446
Central Policy Group & Social Exclusion Unit	-	5,815	-	5,815	-	5,815	5,815	-	4,231
Transfer of Functions 2001-2002 :									
To the Home Office									2,732
To the Lord Chancellor's Department									406
To the Department for Culture, Media and Sport									210
From the Home Office									(39,552)
From the Department for Education and Skills									(9,234)
From the Department for Transport, Local Government & the Regions									(73,103)
From the Privy Council Office									(320)
Total	**-**	**115,732**	**-**	**115,732**	**-**	**115,732**	**115,732**	**-**	**2,023**
Resource Outturn	**240,290**	**166,625**	**22,989**	**429,904**	**(70,789)**	**359,115**	**356,749**	**(2,366)**	**220,422**

Reconciliation to Operating Cost Statement

	Admin.	Other current	Grants	Gross resource expenditure	A in A	Net total
Non-Supply expenditure	-	-	-	-	-	-
Income payable to the Consolidated Fund	-	-	-	-	(1,044)	(1,044)
Transactions between Request for Resources netted off in Operating Cost Statement	-	-	-	-	-	-
Income netted off in gross sub-head grossed up in Operating Cost Statement	-	-	-	-	-	-
Consolidation Elimination entries	(5,564)	-	-	(5,564)	5,191	(373)
Transfer of estimate cover	-	(115,732)	-	(115,732)	-	(115,732)
Gross operating expenditure				**308,608**		
Operating income					**(66,642)**	
Net operating cost						**241,966**

Key to Request for Resources and functions

Request for resources 1 –
Supporting the Prime Minister's Office closely in ensuring the delivery of Government objectives

Comparison of Net Resource Outturn to Spring Supplementary Estimate (HC 424)

		Admin.	Other current	Estimate Grants	2002-03 Gross Total	A in A	Net Total	Admin.	Other current	Actual Grants	2002-03 Gross Total	A in A	Net Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Department Expenditure Limit - DEL													
Central Government Spending													
Cabinet Office	A	195,989	21,242	2,649	219,880	(31,427)	188,453	191,398	22,410	3,867	217,675	(31,420)	186,255
Centre for Management and Policy Studies	B	26,661	-	-	26,661	(24,180)	2,481	27,227	-	-	27,227	(24,180)	3,047
Government Car and Despatch Agency	C	13,376	-	-	13,376	(14,782)	(1,406)	13,620	-	-	13,620	(14,782)	(1,162)
Support for Local Authorities													
Emergency Planning Grants	F	-	-	19,038	19,038	-	19,038	-	-	18,634	18,634	-	18,634
Total DEL		**236,026**	**21,242**	**21,687**	**278,955**	**(70,389)**	**208,566**	**232,245**	**22,410**	**22,501**	**277,156**	**(70,382)**	**206,774**
Annually Managed Expenditure - AME													
Non Cash Items													
Cabinet Office	G	30,001	-	-	30,001	-	30,001	6,059	28,483	-	34,542	(407)	34,135
Centre for Management and Policy Studies	H	650	-	-	650	-	650	625	-	-	625	-	625
Government Car and Despatch Agency	I	1,406	-	-	1,406	-	1,406	1,361	-	-	1,361	-	1,361
Total AME		**32,057**	**-**	**-**	**32,057**	**-**	**32,057**	**8,045**	**28,483**	**-**	**36,528**	**(407)**	**36,121**
Other Spending outside DEL													
Emergency Planning Capital Grants	L	-	-	794	794	-	794	-	-	488	488	-	488
Machinery of Government contra entry – transfer to DTI	M	-	10,874	-	10,874	-	10,874	-	10,874	-	10,874	-	10,874
Machinery of Government contra entry – transfer to ODPM	N	-	104,858	-	104,858	-	104,858	-	104,858	-	104,858	-	104,858
Profit/Loss on disposal of assets	O	-	-	-	-	(400)	(400)	-	-	-	-	-	-
Total Outside DEL		**-**	**115,732**	**794**	**116,526**	**(400)**	**116,126**	**-**	**115,732**	**488**	**116,220**	**-**	**116,220**
Net Resource Outturn		**268,083**	**136,974**	**22,481**	**427,538**	**(70,789)**	**356,749**	**240,290**	**166,625**	**22,989**	**429,904**	**(70,789)**	**359,115**

		Saving/(Excess) 2002-03					
		Admin.	Other current	Grants	Gross Total	A in A	Net Total
		£000	£000	£000	£000	£000	£000
Department Expenditure Limit - DEL							
Central Government Spending							
Cabinet Office	A	4,591	(1,168)	(1,218)	2,205	(7)	2,198
Centre for Management and Policy Studies	B	(566)	-	-	(566)	-	(566)
Government Car and Despatch Agency	C	(244)	-	-	(244)	-	(244)
Support for Local Authorities							
Emergency Planning Grants	F	-	-	404	404	-	404
Total DEL		**3,781**	**(1,168)**	**(814)**	**1,799**	**(7)**	**1,792**
Annually Managed Expenditure - AME							
Non Cash Items							
Cabinet Office	G	23,942	(28,483)	-	(4,541)	407	(4,134)
Centre for Management and Policy Studies	H	25	-	-	25	-	25
Government Car and Despatch Agency	I	45	-	-	45	-	45
Total AME		**24,012**	**(28,483)**	**-**	**(4,471)**	**407**	**(4,064)**
Other Spending outside DEL							
Emergency Planning Capital Grants	L	-	-	306	306	-	306
Machinery of Government contra entry – transfer to DTI	M	-	-	-	-	-	-
Machinery of Government contra entry – transfer to ODPM	N	-	-	-	-	-	-
Profit/Loss on disposal of assets	O	-	-	-	-	(400)	(400)
Total Outside DEL		**-**	**-**	**306**	**306**	**(400)**	**(94)**
Net Resource Outturn Saving / (Excess)		**27,793**	**(29,651)**	**(508)**	**(2,366)**	**-**	**(2,366)**

Net Resource Outturn recorded a net over-spend against voted net resource requirement and the Department incurred an Excess Vote of £2,366,570.34.

An impairment of £4.5 million is recorded within AME. Subsequent to the year-end, Treasury approval for virement has been obtained in order to apply under-spends falling within DEL to reduce the overspend within AME leaving a residual excess net resource requirement of £1.4 million.

Excess Appropriations in Aid of £1 million arose from the fact that bodies under net control, CMPS and GCDA, increased their expenditure and received offsetting income as permitted under the net control regime but without correspondingly increasing the Appropriations in Aid limit in order to retain the income in Parliamentary terms; this has resulted in excess Appropriations in Aid and, accordingly, excess net resource requirement of £1 million.

The combined effect of excess expenditure arising from the impairment as explained above, and from expenditure in excess of authorised Appropriations in Aid is a total of £2.4 million excess net resource requirement. Parliamentary approval is being sought to apply the excess Appropriations in Aid against the Excess Vote thus reducing to £1.4 million the additional resources required from Parliament.

Comparison of Capital Outturn to Spring Supplementary Estimate (HC 424)

		Estimate 2002-03			Actual 2002-03			Saving/Excess 2002-03		
		Capital	Non Operating A in A	Estimate Net Total	Capital	Non Operating A in A	Outturn Net Total	Capital	Non Operating A in A	Saving/ Excess Net Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Department Expenditure Limit – DEL										
Cabinet Office	A	32,362	(5,983)	26,379	21,499	(255)	21,244	10,863	(5,728)	5,135
Centre for Management and Policy Studies (CMPS)	B	763	-	763	588	(1)	587	175	1	176
Government Car and Despatch Agency	C	1,651	(138)	1,513	1,139	(186)	953	512	48	560
Office of the e-Envoy	D	27,150	-	27,150	29,692	-	29,692	(2,542)	-	(2,542)
Office of the e-Envoy – CJIT assets	D	13,337	-	13,337	15,360	-	15,360	(2,023)	-	(2,023)
Total DEL		**75,263**	**(6,121)**	**69,142**	**68,278**	**(442)**	**67,836**	**6,985**	**(5,679)**	**1,306**
Other Spending outside DEL										
Machinery of Government contra entry – transfer to ODPM	N	613	-	613	613	-	613	-	-	-
Net Capital Outturn Savings / (Excess)		**75,876**	**(6,121)**	**69,755**	**68,891**	**(442)**	**68,449**	**6,985**	**(5,679)**	**1,306**
Accounting re-classification to Debtors:										
Office of the e-Envoy– CJIT assets	D	(13,337)	-	(13,337)	(15,360)	-	(15,360)			
CMPS- Off- Balance Sheet PFI	B	651	-	651	563	-	563			
Net Capital Outturn reflected within Fixed Assets		63,190	(6,121)	57,069	54,094	(442)	53,652			

Net Capital Outturn recorded a saving of £1.3 million.

Accounting re-classification from Fixed Assets to Debtors

The components of Capital Outturn equate to the components of voted Capital Outturn in order to derive the amount of savings/(excess) for Parliamentary control purposes. For accounting purposes, the following components included in Capital Outturn are treated as Debtors rather than Fixed Assets:

Criminal Justice IT Infrastructure Assets (CJIT)

The Home Office has employed the services of the Office of the e-Envoy at the Cabinet Office to develop the infra-structure on behalf of Criminal Justice IT at the Home Office. The assets are not owned by the Cabinet Office and the Home Office assumes ownership on delivery. The Home Office transferred part of their Estimate cover to the Cabinet Office in order that the Cabinet Office received cash to spend on the project. In accounting terms, actual spend is recorded under Other Debtors at Note 18.

Off-Balance Sheet PFI Contribution of Existing Assets

CMPS entered into a PFI arrangement and a prepayment has been established for the fair value of the property contributed to the scheme; a part of this prepayment is released annually to Operating Cost.

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

	Capital expenditure	Loans, etc.	A in A	Net total
	£000	£000	£000	£000
Purchase of fixed assets	53,485	-	-	53,485
Capital payments on finance assets	40	-	-	40
Income from disposal of fixed assets	-	-	(176)	(176)
Total 2002–03	**53,525**	**-**	**(176)**	**53,349**
Total 2001–02	78,053	-	(491)	77,562

Capital expenditure excludes donated assets £28,257.

13. Tangible fixed assets

	Land & Buildings excluding Dwellings (a)	Dwellings	e-Government Projects (e)	Information Technology	Plant & Machinery (d)	Furniture & Fittings	Art & Antiques (b)	Donated Assets (c)	Assets under Construction (f)	Projects under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation											
At 1 April 2002	128,396	961	72,909	9,005	10,646	4,117	6,116	1,552	50,128	-	283,830
Additions	13,069	-	29,692	3,657	2,280	1,184	-	-	1,188	1,659	52,729
Donations	-	-	-	-	-	-	-	28	-	-	28
Disposals	(9,765)	-	-	(2,307)	(2,223)	(633)	-	-	-	-	(14,928)
Reclassifications	49,998	-	-	-	-	-	-	-	(49,998)	-	-
Revaluations	(22,240)	-	(4,802)	(311)	(85)	49	-	-	4	-	(27,385)
At 31 March 2003	**159,458**	**961**	**97,799**	**10,044**	**10,618**	**4,717**	**6,116**	**1,580**	**1,322**	**1,659**	**294,274**
Depreciation											
At 1 April 2002	3,236	40	15,729	4,029	6,321	1,221	-	-	-	-	30,576
Charged in year	2,050	16	20,346	2,026	1,486	517	-	-	-	-	26,441
Disposals	(500)	-	-	(2,300)	(1,888)	(434)	-	-	-	-	(5,122)
Reclassifications	-	-	-	-	-	-	-	-	-	-	-
Revaluations	(1,549)	-	(291)	(143)	(61)	16	-	-	-	-	(2,028)
At 31 March 2003	**3,237**	**56**	**35,784**	**3,612**	**5,858**	**1,320**	**-**	**-**	**-**	**-**	**49,867**
Net book value at 31 March 2003	**156,221**	**905**	**62,015**	**6,432**	**4,760**	**3,397**	**6,116**	**1,580**	**1,322**	**1,659**	**244,407**
Net book value at 31 March 2002 restated	**125,160**	**921**	**57,180**	**4,976**	**4,325**	**2,896**	**6,116**	**1,552**	**50,128**	**-**	**253,254**
Asset financing:											
Owned	155,216	905	62,015	6,432	4,656	3,397	6,116	1,580	517	1,659	242,493
Finance leased	-	-	-	-	104	-	-	-	-	-	104
On-balance sheet PFI contracts	1,005	-	-	-	-	-	-	-	-	-	1,005
PFI residual interests	-	-	-	-	-	-	-	-	805	-	805
Net book value at 31 March 2003	**156,221**	**905**	**62,015**	**6,432**	**4,760**	**3,397**	**6,116**	**1,580**	**1,322**	**1,659**	**244,407**

Notes:

a Cushman & Wakefield Healey & Baker valued 22-26 Whitehall, Admiralty Arch and 70 Whitehall as at 31 March 2003. Other freehold land and buildings of the core Department were valued at 31 March 2000 on the basis of existing use value by Gerald Eve, Chartered Surveyors. All other tangible non-heritage fixed assets are revalued annually using indices provided by the Treasury.

Included within Land and Buildings are notional acquisition costs representing legal fees and stamp duty on land and buildings held; as at 31 March 2003, these costs at valuation were £7.7million.

b Art and antiques, including furniture, carpets, clocks, silver, ceramics and art were last valued in September 1998 by experts at Sotheby's. The department has not been made aware of any change in value of these items and therefore these items have not subsequently been re-valued.

c Donated assets were valued in July 1999 by J. McCarthy Ltd.

d Plant & machinery includes motor vehicles. Total plant & machinery includes £165,000 relating to the gross value of a motor vehicle purchased through a hire purchase agreement. Depreciation of £76,000 for the year has been charged on this vehicle.

e Included within e-Government Projects are assets under construction of £5,903,009 at cost.

f Assets Under Construction - Land and Buildings :

During the year £10.5million (2001 – 2002: £27million) was spent on the redevelopment of offices at 22, Whitehall. This project was completed in 2002 – 2003 and reclassified to be included in the holdings of non residential freehold land and buildings.

The Emergency Planning College spent £0.4million (2001-2002: £0.1million) on the redevelopment of facilities based in York.

CMPS recognise as a tangible fixed asset, the accruing residual interest in property under a PFI arrangement – see note 27.

14. Intangible fixed assets

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

	Purchased software licences
	£000
Cost or valuation	
At 1 April 2002	6,881
Additions	756
Donations	-
Disposals	-
Revaluation	-
At 31 March 2003	**7,637**
Amortisation	
At 1 April 2002	3,994
Charged in year	1,246
Disposals	-
Revaluation	-
At 31 March 2003	**5,240**
Net book value at 31 March 2003	**2,397**
Net book value at 31 March 2002	**2,887**

15. Investments

	Loans
	£000
Balance at 1 April 2002	703
Additions	-
Disposals	-
Loan repayments	(193)
Revaluations	-
	510
Loans repayable within 12 months transferred to debtors	-
Balance at 31 March 2003	**510**

16. Movements in working capital other than cash

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

	2002–03	2001–02 Restated
	£000	£000
Decrease in stocks / work in progress	(77)	-
Increase in debtors	23,818	8,191
Decrease / (Increase) creditors falling due within one year	12,866	(19,079)
Adjustment: movement in working capital not related to net operating costs	(24,108)	6,849
	12,499	**(4,039)**
Adjustment: settlement of prior year financing net debtors/ (creditors) relating to Transfer of Functions	3,943	-
Adjustment: Excess A in A included in trade debtors	(1,022)	-
Transitional adjustment recognised in Schedule 1 *	(6,721)	6,460
Net increase/ (decrease) in working capital other than cash	**8,699**	**2,421**

	2002–03
Analysis of net increase in working capital as presented on Schedule 1:	
Capital :	
Criminal Justice IT infra-structure assets **	**15,360**
Off-balance sheet PFI - contribution of existing assets - release of prepayment	**(563)**
Changes in working capital other than cash:	
Net operating Costs	(475)
Excess A in A included in trade debtors	(1,022)
Capital expenditure accruals **	2,120
Transitional adjustment *	(6,721)
	(6,098)

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

	2002–03	2001–02 Restated
	£000	£000
Decrease in stocks / work in progress	(77)	-
Increase in debtors	23,818	8,191
Decrease / (Increase) in creditors falling due within one year	12,866	(19,079)
Adjustment: movement in working capital not related to voted resource consumption (net)	(24,108)	6,849
	12,499	(4,039)
Adjustment: settlement of prior year financing net debtors/ (creditors) relating to Transfer of Functions	3,943	-
Adjustment : Capital expenditure accruals recorded in Fixed Assets **	(6,138)	9,712
Net increase / (decrease) in working capital other than cash	**10,304**	**5,673**

* Transitional adjustment for outstanding balances relating to the department's Appropriation Accounts for 2000-01
** Movement on capital expenditure accruals £2,120 K; of which £6,138K recorded within Fixed assets and £(4,018)K recorded within Other Debtors – CJIT assets.

17. Stocks and work in progress

	2002–03	2001–02 Restated
	£000	£000
Stocks	**20**	**97**

18. Debtors

	2002–03	2001–02 Restated
	£000	£000
Amounts falling due within one year:		
VAT	5,186	3,582
Trade debtors	10,952	8,649
Deposits and advances	1,267	943
Other debtors	15,710	594
Prepayments and accrued income	7,919	7,817
Early Retirement Prefunding	583	891
Current part of PFI prepayment	637	-
Cash Balances due relating to Machinery of Government Transfers:		
Emergency Planning College	-	4,130
Government Offices for the Regions	-	2,022
Amounts due from the Consolidated Fund in respect of supply	1,838	-
	44,092	**28,628**
Amounts falling due after more than one year:		
Trade debtors	-	-
Deposits and advances	-	-
Other debtors	-	-
Prepayments and accrued income	**8,354**	-
	52,446	**28,628**

Included within Trade Debtors is £1,022,000 (2001-02: £NIL) that will be due to the Consolidated Fund once the debts are collected.

Included within Other Debtors is £15,360,529 (2001-02: £NIL) due from the Home Office in return for services provided by the Office of the e-Envoy in developing infra-structure on behalf of the Criminal Justice IT at the Home Office.

19. Cash at bank and in hand

	2002–03	2001–02 Restated
	£000	£000
Balance at 1 April	16,513	17,026
Net change in cash balances:	(12,576)	(513)
Balance at 31 March	**3,937**	**16,513**
The following balances at 31 March are held at:		
Office of HM Paymaster General	3,381	16,413
Commercial banks and cash in hand	556	100
Balance at 31 March	**3,937**	**16,513**
The balance at 31 March comprises:		
Cash due to be paid to / (paid by) the Consolidated Fund	-	-
(Under)/over-issue of Supply in the year	(8,559)	17,490
Transfer of Functions due from Home Office	-	(4,107)
Transitional adjustment recognised in Schedule 1*	6,721	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	(1,838)	13,383
Cash due from the Office of the Deputy Prime Minister in respect of Government Offices for the Regions	-	(2,022)
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	23	52
Cash payments due to departments in relation to Machinery of Government Transfers:		
Department for Trade & Industry	2,410	-
Office of the Deputy Prime Minister	495	-
Lord Chancellor's Department	-	174
Department for Culture, Media & Sport	-	62
Home Office	-	1,973
Other [1]	2,847	2,891
	3,937	**16,513**

Note

[1] Cash balances held by entities under net administrative control

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

20. Creditors

	2002–03	2001–02 Restated
	£000	£000
Amounts falling due within one year:		
Other taxation and social security	-	-
Trade creditors	5,598	6,048
Other creditors	3,116	1,847
Accruals and deferred income	32,440	30,309
Cash balances owed relating to Machinery of Government Transfers	2,905	2,209
Current part of finance leases	25	40
Current part of imputed finance lease element of on-balance sheet PFI contracts	-	-
Amounts issued from the consolidated fund for supply but not spent at year end	-	13,383
Emergency Planning College supply not spent	-	4,107
Consolidated fund extra receipts received and receivable and other due to be paid to the consolidated fund	1,045	52
	45,129	**57,995**
Amounts falling due after more than one year:		
Finance leases	64	103
Imputed finance lease element of on-balance sheet PFI contracts	-	-
Total	**45,193**	**58,098**

21. Provisions for liabilities and charges

	Early Departure Costs	Specific Dilapidations	Free Rent	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2002	1,429	1,064	2,055	200	4,748
Provided in the year	850	1,141	345	80	2,416
Provisions not required written back	-	(974)	(126)	(92)	(1,192)
Provisions utilised in the year	(455)	(55)	-	(108)	(618)
Prefunding utilised in year	(360)	-	-	-	(360)
Unwinding of discount	263	-	-	-	263
Balance at 31 March 2003	**1,727**	**1,176**	**2,274**	**80**	**5,257**

Early Departure Costs

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6 per cent in real terms. Until March 2000, the department was able to settle some or all of its liability in advance for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment. Payments are made monthly and it is anticipated that the expenditure will all have been incurred by 2011.

Specific Dilapidations

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

Free Rent

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

Other

This was a provision for the development costs of the new intranet for the Cabinet Office in 2001-02. No provision was required for 2002-03. A new provision for £80,000 has been set up in GCDA's books to meet likely obligations as a consequence of claims made against them as at 31 March 2003. Payments are expected to be made in 2004 and 2005.

22. Reconciliation of net operating cost to changes in general fund

	2002-03		2001-02 Restated	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(241,966)		(218,347)	
Income not appropriated in aid payable to Consolidated Fund	(1,044)		(52)	
		(243,010)		(218,399)
Parliamentary Supply 2002-03 :				
Cash Drawn		363,419		259,691
Deemed Supply - settlement of previous year creditor for cash unspent		7,584		13,322
Financing relating to :				
Functions transferring in		-		120,241
Functions transferring out		(113,027)		(122,023)
Consolidated Fund Supply Balance 2001-02		6,651		-
Transferred (from)/to general fund of realised element of revaluation reserve (Note 23)		2,520		372
Property Construction Costs offset against an established reserve within the General Fund		(15,457)		-
Reclassification to Revaluation Reserve		(9,435)		-
Transfer of functions-balances introduced		-		5,069
Transferred from Consolidated Fund for standing services		-		-
Consolidated Fund debtor/(creditor) in respect of supply unissued/(unspent)		1,838		(17,490)
Inter-departmental debtors for transfer of functions		-		4,130
Inter-departmental creditors for transfer of functions		(2,905)		(2,209)
Non-cash charges:				
Cost of capital	14,592		11,968	
Auditors' remuneration	245		286	
		14,837		12,254
Net increase in general fund		13,015		54,958
General fund at 1 April		211,848		156,890
General fund at 31 March (Schedule 3)		**224,863**		**211,848**

23. Reserves

	2002–03 Revaluation reserve	2001–02 Restated Revaluation reserve
	£000	£000
Balance at 1 April	25,836	18,584
Arising on revaluation during the year (net)	(5,927)	7,624
Reclassification from the General Fund	9,435	-
Transferred to general fund in respect of realised element of revaluation reserve	(2,520)	(372)
Balance at 31 March	**26,824**	**25,836**

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

	2002–03 Donated asset reserve	2001–02 Restated Donated asset reserve
	£000	£000
Balance at 1 April	1,552	1,476
Additions during the year	28	76
Revaluations	-	-
Release to the Operating Cost statement	-	-
Balance at 31 March	**1,580**	**1,552**

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

24. Notes to Schedule 5

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

	2002–03	2001–02 Restated
	£000	£000
Objective 1	500	393
Objective 2	7	-
Objective 3	32,948	17,846
Objective 4	3,221	3,859
Objective 5	37,206	36,811
	73,882	**58,909**

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

25. Capital commitments

	2002–03	2001–02 Restated
	£000	£000
Contracted capital commitments at 31 March 2003 for which no provision has been made	**14,946**	**29,808**

Capital commitments at 31 March 2003 include £7.1 million in respect of accommodation at the Emergency Planning College and £7.7 million in respect of the development of e-Government projects.

26. Commitments under leases

Operating leases

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

	2002–03	2001–02 Restated
	£000	£000
Obligations under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	-	-
Expiry after 1 year but not more than 5 years	1,493	1,140
Expiry thereafter	4,921	5,327
	6,414	**6,467**
Other:		
Expiry within one year	72	69
Expiry after 1 year but not more than 5 years	904	880
Expiry thereafter	43	-
	1,019	**949**

Finance leases

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

	2002–03	2001–02 Restated
	£000	£000
Obligations under finance leases comprise:		
Rentals due within 1 year	48	48
Rentals due after 1 year but within 5 years	85	133
Rentals due thereafter	-	-
Less interest element	(32)	(43)
	101	**138**

27. Commitments under PFI contracts

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

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

Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £4,020,436 (2001–02: £Nil); and the payments to which the department is committed during 2003–04, analysed by the period during which the commitment expires, is as follows.

	2002–03	2001–02 Restated
	£000	£000
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	-	-
Expiry within 11 to 15 years	2,457	-
Expiry within 16 to 20 years	-	-
Expiry within 21 to 25 years	-	-
Expiry within 26 to 30 years	-	-
	2,457	**-**

28. Other financial commitments

There were no other commitments at 31 March 2003.

29. Contingent liabilities disclosed under FRS 12

There were no contingent liabilities under FRS 12 at 31 March 2003.

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

There were no such contingent liabilities at 31 March 2003.

31. Losses and special payments

Losses Statement	**Total Number of Cases**	**£000**
Total	35	49.5
Special Payments		
Total	18	6.8

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

32. Related-party transactions

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

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

33. Financial instruments

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

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

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

Interest-rate risk

99.6 per cent of the department's financial assets and 99.9 per cent of its financial liabilities carry nil or fixed rates of interest, and the Cabinet Office is not therefore exposed to significant interest-rate risk.

Interest rate profile

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

Financial liabilities

					Fixed-rate financial liabilities		Non-interest-bearing financial liabilities
Currency	**Total**	**Floating-rate financial liabilities**	**Fixed-rate financial liabilities**	**Non-interest bearing financial liabilities**	**Weighted-average interest rate**	**Weighted-average period for which rate is fixed**	**Weighted average period until maturity**
	£000	£000	£000	£000	%	Years	Years
At 31 March 2003:							
Sterling	5,321	-	64	5,257	20	6	7
Gross financial liabilities							
At 31 March 2002							
Sterling	103	-	103	-	20	7	-
Gross financial liabilities							

Financial assets

Currency	Total	Floating-rate financial assets	Fixed-rate financial assets	Non-interest bearing financial assets (Note a)	Fixed-rate financial assets: Weighted-average interest rate	Fixed-rate financial assets: Weighted-average period for which rate is fixed	Non-interest-bearing financial assets: Weighted average term
	£000	£000	£000	£000	%	Years	Years
At 31 March 2003							
Sterling	12,801	-	16	12,785	4	10	*Note a*
Gross financial liabilities							
At 31 March 2002							
Sterling	17,216	-	189	17,027	4	11	
Gross financial liabilities							

Note:

a The department's non-interest bearing financial assets comprises cash at bank and in hand (2002-03: £3,937,000; 2001-02: £16,513,000) and a loan to the London Hostels Association (2002-03: £494,128; 2001-02: £514,128). Cash at bank and in hand is available on demand. The loan is repayable in full by 2026. PFI (2002-03: £8,354,000; 2001-02: £nil) is repayable between 11 and 15 years.

Foreign currency risk

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

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 2003.

	Book value	Fair value	Basis of fair valuation
	£000	£000	
Primary financial instruments			
Financial assets:			
Cash at bank	3,937	3,937	
Loan to Civil Service Sports Council	16	16	*Note a*
Loan to London Hostels Association	494	333	*Note b*
PFI	8,354	8,354	
Financial liabilities:			
Finance lease obligations including on-balance sheet PFI imputed finance lease obligations	64	64	*Note c*
Provisions	5,257	5,257	*Note d*

Notes:

a The amount is payable within a year, so fair value is not significantly different from book value.
b Cash flows have been discounted at prevailing market interest rates for a loan of a similar term.
c Cash flows have been discounted at prevailing market interest rates for finance leases for a similar term.
d 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 6 per cent in real terms.

34. Entities within the departmental boundary

The entities within the boundary during 2002–03 were as follows:

Supply-financed agencies:	Government Car and Despatch Agency
Advisory Non-Departmental Public Bodies:	Advisory Committee on Business Appointments
	Better Regulation Task Force
	Civil Service Appeal Board
	Committee on Standards in Public Life
	House of Lords Appointments Commission
	Political Honours Scrutiny Committee
	Senior Salaries Review Body
	Security Commission
	Security Vetting Appeals Panel
	Advisory Committee on Advertising
	Advisory Committee on Crown Copyright

The annual report and accounts of the Government Car and Despatch Agency are published separately.

35. Post Balance Sheet Events

In November 2003, the Cabinet Office embarked on a Better Cabinet Office Programme to achieve greater operational efficiency for the medium to long term and to maintain and enhance the Department's reputation for the delivery of high-quality public services. A limited amount of restructuring is fundamental to the success of this Programme and the Treasury has made additional funding of £3.5million available to enable the Cabinet Office to run an early departure scheme and to establish a re-skilling programme.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
165566 03/04

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